Health +

Welfare

Health and Welfare Survey

THE NEW YORK TIMES, MONDAY, JANUARY 19, 1959.

HOFFA ASKS DATA ON PENSION FUNDS

Orders Locals Also to Send Reports on Welfare Plans —Denies Control Bid

By A. H. RASKIN

James R. Hoffa wants to know how the locals of the International Brotherhood of Teamsters spend their hundreds of millions of dollars in pension and welfare funds.

The president of the country's biggest and most-investigated union has ordered all local and regional teamster units to send him full financial data on the benefit funds that protect their 1,600,000 members.

Some local union chiefs, mindful of Mr. Hoffa's penchant for centralized authority, are fearful the move represents a first step toward direct control of the funds by the parent union. Some even foresee eventual establishment of a national pool involving reserves of well over $1,000,000,000.

However, Mr. Hoffa, reached by telephone at his Washington offices a few days ago, denied that he had any intention of seeking central custody, control or supervision of the funds or of recommending any change in present collective bargaining methods.

He insisted that the chief reason he wanted the information from the locals was that he was constantly being asked how much money the teamsters had in all their benefit funds and he did not know the answer.

He said questions on this score were coming up in the two-year-old inquiry by the Senate Select Committee on Improper Activities in the Labor or Management Field. The committee has been intensely critical of Mr. Hoffa's administration of the funds under his control as head of the Central States Conference of Teamsters.

Most Extensive Pool

The union now has a checkerboard pattern of agreements. Some locals bargain with their own employers and have special funds of their own. Others have city-wide or state-wide pools and still others operate through funds that cover many states.

The most extensive pool embraces the pension funds for local and long-distance truck drivers in twenty-nine Midwestern, Southern and Southwestern states. This combination was forged under Mr. Hoffa's personal direction before he became international president a year ago.

He is a champion of the idea that nation-wide trucking agreements represent the best guarantee of stability for the industry and the union. However, he has not pressed this notion with full vigor because his conduct of the union's affairs is subject to restriction by three court-appointed monitors. One of their functions is to safeguard the democratic rights of the union's locals and their rank-and-file members.

All the pension and welfare funds come from employer contributions, and the funds are jointly managed by industry and union trustees. However, testimony before the Senate committee has indicated that the management representatives often leave final decision in the hands of their union colleagues as a means of avoiding "labor trouble."

Press Intelligence, Inc.
WASHINGTON 1, D. C.

NEW YORK (N. Y.)
TIMES

Circ.: m. 570,717
S. 1,168,844

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Date JAN 19 [redacted]

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INTERNATIONAL BROTHERHOOD OF TEAMSTERS
CHAUFFEURS · WAREHOUSEMEN & HELPERS
OF AMERICA

WASHINGTON 1, D.C.

OFFICE OF
· JAMES R. HOFFA ·
GENERAL PRESIDENT
25 LOUISIANA AVE., N.W.

January 12, 1959

TO ALL LOCAL UNIONS, JOINT COUNCILS AND AREA CONFERENCES

Dear Sir and Brother:

The International Union is conducting a survey of all Health, Welfare and Pension plans covering our membership in all of our locals throughout the country.

In an effort to complete this survey, we would appreciate your forwarding us the following:

1. Copy of your Trust Indenture as amended to date.

2. Any booklet or other written material descriptive of the plan or fund, that is given or made available to covered members.

3. Copy of the latest financial statement or accountant's report.

4. Copy of the latest report filed with the State Insurance or Banking Department.

5. Copy of the latest report filed with the U. S. Labor Department.

Your compliance with this survey is of extreme importance to your officers and General Executive Board, and we look forward to your early cooperation.

Fraternally yours,

James R. Hoffa

James R. Hoffa
General President

ADMINISTRATIVE FILE

Health and Welfare
Reliance Mutual Life
Insurance Company

SHIELD PROVIDE

RELIANCE MUTUAL LIFE INSURANCE COMPANY
of Illinois

15 South Northwest Highway, Park Ridge, Illinois

J. C. McKEON AGENCY
2430 SPRUCE STREET
Philadelphia 3, Pa.

1/29/59

Mr. James Hoffa - President
International Brotherhood of Teamsters
25 Louisiana Ave., N.W.
Washington, D.C.

Dear Mr. Hoffa:

I think I can offer you for your Union members an extremely attractive Insurance program on an interesting basis.

In 1957 I instituted a Doctor Surgeon Program which pays for Doctor's visits at the home and Doctor's office as well as at the Hospital. This is coupled with a program of excellent surgical allowance for operations. There are no waiting periods for this plan. It can be packaged as desired with an excellent Hospital protection Plan and also an Income protection Plan.

Most any intelligent person knows that 9 times out of 10 when one needs the services of his Doctor it is at the Doctor's office or at the home-rather than at the Hospital. Statistics show that 86% of all illness or injury treatment is rendered outside the Hospital. This program has had a tremendous appeal-far more appeal in fact than the various non-profit Plans such as Blue Cross-Blue Shield, Medicare, etc., etc. It does a far better comprehensive job in covering all Medical costs and it would have a unique appeal to your Union members.

I am sure something extremely attractive to you could be worked out immediately.

If you would like to know more about the details and arrangements just give me a call or write me at the above Philadelphia address and we can arrange a prompt appointment. I really think you would be in a position to offer to your members something they have never had before at a price almost unbelievably low.

Kind wishes,

John McKeon

J. C. McKeon-General Agent & Director Health & Accident Division
Reliance Mutual Life Ins. Co.
Phila., 3 Penna.
McK/rs

J. M. SMITH
PRESIDENT

ROY TUCHBREITER
CHAIRMAN OF THE BOARD

WILLARD N. BOYDEN
VICE PRESIDENT AND SECRETARY

(7)

ADMINISTRATIVE FILE ✓
Health and Welfare
X Continental Casualty Co.
X

CONTINENTAL CASUALTY COMPANY

GENERAL OFFICE 310 SOUTH MICHIGAN AVENUE, CHICAGO 4, ILLINOIS

LOUIS C. MORRELL
VICE PRESIDENT

January 7, 1959

Mr. James R. Hoffa, President
International Brotherhood of Teamsters
Washington, D. C.

Dear Mr. Hoffa:

As you know, the absence of hospitalization insurance for people 65 years of age and over has been one of our country's major unsolved health and social needs.

Because of your organization's concern for the welfare of our senior citizens, I believe you will be interested to know that our company is now offering its 65-Plus hospitalization insurance in Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland, Ohio, District of Columbia and California. Enrollment will be limited to a three week period.

Because your members or state or local officials may be inquiring about this insurance, I felt you would wish to be informed. To be quite frank, we find that establishing believability is the most difficult problem we face.

This revolutionary type of coverage is the first and only plan to be offered on a wide scale to people already 65 years of age or over. It has been in effect in Iowa for more than a year and was successfully introduced in Illinois, Wisconsin and Indiana last September. Despite underwriting by the country's number one accident and health company and with the commendation of leading medical, church, business organizations, and the press, many people just won't believe it!

As information for you and appropriate members of your staff, I am enclosing a fact sheet on this 65-Plus insurance, along with reprints of editorials about it from leading newspapers of the areas in which it already has been introduced, and a brief suggested item for your own bulletin or publication.

I believe you will agree that the ability of a private business to fill an unmet social need in a way that serves the many is one of the strengths of the American economic system and deserves to be encouraged. 65-Plus is the

first positive answer to current legislative attempts to force government into this field. If you could commend this type of insurance plan or mention it in any of your publications, I believe you would be doing them a real service.

Thank you very much for your consideration of this effort to bring better hospital care, greater financial independence and dignity to our senior citizens.

Sincerely yours,

P.S. Incidentally, if we could have a directory or roster of your state and local representatives, it would be most helpful to us. Should there be any cost involved, we will be more than glad to pay it.

THE AMA NEWS
The Newspaper of American Medicine
published under auspices of the Board of Trustees
OCTOBER 6, 1958 • VOLUME 1 • NUMBER 2

Editorial Viewpoint

Problems Of The Aged

The number of persons in the U.S. aged 65 or over increases about 2,000 a day. We are living longer than did our ancestors, and our descendants will live longer still. The proportion of the elderly to the total population rises steadily.

Medicine and its related fields largely are responsible for this expanding longevity. For example, American medicine has made tremendous strides in surgical treatment of elderly people. Patients aged 60 to 90 and even beyond are undergoing surgery as a routine matter today—something virtually unheard of a generation ago. And the mortality rate is low.

There have been a host of other medical advances that also have played a part in providing longer life for Americans.

But the increased number of the aged has brought complex problems. There is need for more skilled personnel and facilities for treating older people, an extension of effective methods of financing their health care, an amplification of medical and socio-economic research regarding their problems, and co-operation in senior citizen community programs.

The American Medical Association has given top priority to the task of creating better care for the aged. At a planning conference on problems for the aged and aging called by the AMA last month in Chicago, there was every indication that medicine would offer the leadership so badly needed in this area.

The problem presents an urgent challenge to all members of the profession.

REPRINTED FROM "THE AMERICAN MEDICAL ASSOCIATION NEWS" - October 6, 1958

Insurance Plan For Aged Offered

Hospital-surgical insurance for people 65 and older is being offered on a large scale for the first time.

It is being sold in Wisconsin, Indiana, Illinois and Iowa.

The "65 Plus" policy is sold on the group insurance principle with all of the people 65 and older in one state making up the informal group to which the policy is offered.

Trial Basis: It first was sold in Iowa a year ago and still is considered on somewhat of a trial basis, said Dr. Clem Martin, medical director for Continental Casualty Co., the insuror. The policy now has been extended to the three new states for more experience.

"If we don't lose money we'll be happy," Dr. Martin said. "We're trying to do something to answer a pressing social need. Frankly, we need to sell a big number of policies to be successful."

Dr. Martin said that if this kind of commercial insurance policy is not successful there may be government hospital-surgical insurance for the aged.

The company has written more than 100,000 policies for older persons through its contracts with such groups as the National Retired Teachers Assn. and National Association of Retired Civil Employees. It has agreed to write insurance for the newly-formed American Association of Retired Persons.

Enrollment Campaigns: Premiums are $6 a month in Iowa, $6.50 in Wisconsin, Indiana and Illinois. People enroll by mailing coupons from newspaper ads to the company's state agents. Enrollment campaigns will be yearly and of a month's duration.

If the policies are successful in the trial states the company will offer "65 Plus" on a national basis, Dr. Martin said.

CONTINENTAL MAINTAINS REPUTATION

Chicago Sun-Times
Sunday, October 5, 1958

Pioneers Special Risk Insurance

By Sidney Lazard

Not long ago, a Chicago architect discovered to his horror that a million-dollar bowling alley which he had designed was five feet too short upon completion of construction.

As chief designer, he was responsible for the mistake and liable for the sizeable funds which would be required to rectify it.

Nevertheless, he slept fairly well that night. He was insured by the Continental Casualty Co. against just such an eventuality.

Continental's files are jam-packed with such unusual risks. The company has justly earned its reputation as the home of off-beat accident and health insurance.

Troops Insured

To handle just this special coverage, Continental maintains a full-time staff of 125 persons in the company's home office on S. Michigan.

Here are some examples of the unusual coverage the company provides:

1 When the United Nations dispatched several thousand troops to Egypt in 1956, each soldier was covered by a $25,000 accident policy.

2 A Continental policy covers the daredevil who tests the Army's new human propellant—a rocket that soldiers can strap to their backs and use to hop streams, walls and ditches.

3 A meteorologist seeking information on tornadoes, hurricanes and blizzards shot up to 10,000 feet in a balloon, then anchored himself in a storm cloud and observed the elements. Continental insured him for that and several subsequent voyages.

4 Last season Continental insured numerous Broadway producers against non-performance of cast members disabled by accident. The firm constantly covers television and movie personnel shooting in dangerous areas or performing risky aerobatic stunts.

5 In 1947, the first rocket-powered aircraft broke the sonic barrier. Continental, of course had the pilot insured.

Other Risks Cited

Other Continental firsts in the special risk insurance field include a general and standard line auto racing policy and the first major medical policy.

The company's Substandard Division is recognized in the industry as the largest, most aggressive unit of its type. Now a multimillion dollar segment of the company, its aggressiveness is typified by the accident and health coverage it has written on the Hemophiliac Assn. of a major U.S. city. Each of the insured could bleed to death momentarily from a minor cut.

Policy For Elders

Last week, Continental came up with another innovation in the special risk insurance line—a health policy to be sold exclusively to persons over 65.

No medical examinations are required of the elder applicant. The policy immediately covers any illness incurred by the holder for which he has not previously been treated.

After six months, it will cover conditions existing before the policy was taken out.

Continental has already sold this policy to several persons more than 100 years old and is looking forward to a brisk business in old-timers.

★ ★ ★ CHICAGO DAILY NEWS
OCTOBER 17, 1958

PRIVATE VS. GOVERNMENT PLANS

Insurance for Over-65 Group

IN THE LAST session of Congress, a number of bills were introduced that would have plunged the government into the insurance business. The Forand Bill, though it failed to pass, aroused the most interest because it struck a sympathetic chord—the plight of the people over 65 who are unable to get hospital and medical insurance.

Less than a third of this age group have this coverage, although some 73 per cent of the total population have insurance of this kind.

It is unfortunately true that many workers lose their health insurance coverage at retirement — just when advancing age makes it more likely that they will need it. Some group policies lapse at that time, leaving the whole family uninsured. Others, like the popular Blue Cross and Blue Shield, write no new policies for people over 65, but continue the coverage for those who were insured earlier.

Few insurance companies have been willing to tackle the problem of the elderly people, so that the idea of government taking over medical protection as an offshoot to Social Security had much attraction.

A NEW APPROACH in this field, still in the experimental stage, is being watched with interest by insurance men and others. This is the Continental Casualty Company's "65 Plus" policy.

After running a pilot program in Iowa last year, Continental has offered its policy this year in Illinois, Wisconsin and Indiana. Its basic idea —and a revolutionary one—is that individuals who share only a geographical area and a similar age can comprise a "group" for insurance purposes.

Heretofore, a "group" usually meant employes of a single organization. The individual who belonged to no such group, and especially the individual advanced in years or in impaired health, found it difficult or impossible to buy health insurance.

Continental's plan requires no medical examination and asks no questions about the applicant's health. The company cannot cancel any individual policy unless it cancels the entire group. A "group" is created by accepting applications only in a limited period of each year. The policy is available only to people over 65.

THE COMPANY naturally hopes to make money on its plan at the $6.50-a-month premium charged. But it could lose heavily if the meager statistical evidence on which it is based proves to be faulty.

There is more at stake here, however, than the success or failure of a single plan. Ultimately, the trail being blazed by Continental may determine whether private initiative can meet the challenge posed by an ever-increasing number of "senior citizens."

If the insurance companies do not provide a way for elderly persons to alleviate their worries about hospital and medical bills, the government is sure to be called on to do the job.

Senator Soaper

Masculine dominance, we are told, will return with whiskers, but the newly untrammeled husband is cautioned against getting his beard caught in the disposal unit while doing his kitchen chores.

—

It must have been an eerie experience, the one reported by a Kansas Citian, looking up into a tornado and seeing its eye looking back down at him.

—

An expert on aging advises the senior citizen to keep a sense of humor, which is rather difficult, considering that you heard all today's latest jokes 45 years

HEALTH INSURANCE FOR OLDER PEOPLE

Better and broader coverage is on the way.

IT WAS only a few years ago that a person over the age of 60 or 65 could hardly buy health insurance or even retain what coverage he had. And this at an age when he was more likely to be subject to serious and frequent illnesses than ever before and at a time when he could least afford expensive medical care.

Now this gloomy situation is changing rapidly. Attention to the health insurance needs of older people has been growing in the past couple of years to the extent that anywhere from a quarter to a half of the 15,000,000 Americans now over 65 have some insurance to cover medical, surgical and hospital costs. Indications are that the next few years will both improve and broaden that coverage on a variety of fronts.

A great many people are working on the problem, spurred on by the realization that the over-65 population is growing so fast that more than 21,000,000 of us may have reached or passed that age by 1975. Insurance companies, government, organizations in the health field and others are putting some plans into operation and tinkering with more. Here are some that are already available:

Guaranteed-renewable policies. The trend is definitely away from inserting clauses in health insurance policies that allow the company to cancel a policy when the insured reaches a certain age, has too many illnesses or in other ways becomes too great a risk. Nowadays it is a simple matter to find a policy that does not leave you open to having your insurance canceled for such reasons. Moreover, companies are becoming more and more loathe to enforce such clauses in old policies.

The guaranteed-renewable policies are generally a little more expensive than the older types and carry the same benefits, though companies frequently reserve the right to increase premiums on policies covering an entire group.

You may find that there is a little more red tape involved in getting this kind of policy than the cancellable sort. The company is guaranteeing to keep the policy in force, and it is likely to give your character and health record a more careful scrutiny. The first check has been made necessary by the number of abuses of health insurance turned up in recent years.

These same facts hold true not only for old policyholders who wish to continue renewing but are beginning to be true for older persons applying for health insurance for the first time. Nine companies now offer policies guaranteed renewable for life if purchased by the age of 59. Of these, four take on new policyholders as late as age 75.

Group policies for retired workers. A way of cutting costs to the individual has been discovered by the simple extension of the familiar group plan to retired people.

An example is the National Association of Retired Civil Employes, for which Continental Casualty Co. issued a group policy about a year and a half ago. Approximately 35,000 have now subscribed at a cost of $6 a month per individual. Benefits compare favorably with other group plans.

Retired employes of large corporations, retired municipal employes, and countless other groups could do the same thing.

Continental is also experimenting with what it calls a "65 Plus" policy. This hospital-medical-surgical insurance, which also costs $6 a month, is presently being made available to oldsters in the state of Iowa. Although it cannot be termed a group policy for legal reasons, the persons insured are treated as a group so that premiums can remain low.

Retaining old group insurance. Under several plans, a retiring employe who was covered under a group policy may now retain his former insurance with very little trouble. The idea of continuing group coverage after retirement is one that is developing rapidly and is expected within a short time to embrace many policies for the benefit of individuals retired from the group. The cost of the policy increases, of course.

Only slightly different is the plan for converting a group policy into an individual or family policy at termination of employment with a particular company, whether leaving is due to retirement or other reasons.

And practically no company now quibbles about continuing group insurance on an active employe after he passes 65.

Special policies for oldsters. An example of how some companies are catering to the older person is the policy written by a West Coast firm. Only people between the ages of 51 and 75 are eligible. At a cost ranging from $76 for a person aged 51 to $139 for one aged 75, adequate hospital and surgical coverage is obtainable. Family rates are lower. The policy is renewable for life.

Major medical-expense policies—the kind that takes care of the big illnesses that run into thousands of dollars—have proved a more difficult problem. Older people, with greater likelihood of long-term hospital needs, are undoubtedly bigger risks for insurance companies. Nevertheless, about half of the people now holding major medical insurance have the right of extending it after the age of 65. Some companies may cut down on the extent of benefits after this age.

How will old people, presumed to be on reduced incomes, pay for insurance? That is the big question.

One idea now being tried is that of prepaying health insurance during the working years just as you prepay life insurance. The policy, usually quite expensive, is paid up at age 65. Such a plan has the advantage of letting a man put out the money for old-age ailments while his earnings are highest and living the rest of his life in the serene knowledge that his medical bills will be taken care of.

There is a possibility, too, of government aid in hospital and medical care. A number of bills were introduced before the last Congress to pay certain medical costs of those eligible for social security. Under the best known of these—the one introduced by Representative Aime J. Forand (Dem., R.I.)—the government through social security funds would contract to reimburse hospitals and nursing homes during specified periods of time and to pay certain surgical and dental costs for services to those eligible. A raise in the base salary on which the tax is collected and a raise in the tax itself would be necessary to finance the services.

Meanwhile, groups are working on other approaches to the problem. Recently, the AMA, the American Dental Association, the American Hospital Association and the American Nursing Home Association formed a joint council to study health care of the aged. Voluntary health insurance and how to pay for it will be one of the items on the agenda. The U. S. Department of Health, Education and Welfare, through its committee on aging, has a stake in the matter. So have insurance company actuaries all over the country.

Chances are that senior citizens will be getting a better break healthwise from now on.

Reprinted from CHANGING TIMES The Kiplinger Magazine September 195[illegible]
1729 H Street, N. W., Washington 6, D. C.

STATE of INDIANA

INDIANA STATE COMMISSION
ON THE AGING AND AGED

319 UNION BUILDING
PURDUE UNIVERSITY
LAFAYETTE, INDIANA

October 14, 1958

Mr. J. M. Smith, President
310 South Michigan Avenue
Continental Casualty Company
Chicago 4, Illinois

Dear Mr. Smith:

I am writing you as chairman of the Indiana State Commission on the Aging and Aged.

One of the objectives of the Commission is to encourage the expansion and improvement of health care facilities for the aging. In the Governor's Conference on Aging held in April 1958, one resolution adopted specified that various areas should be investigated to ascertain what type of finance plan is more suitable for each of several areas including hospital care, physician care, convalescence, home care, etc. This in itself is an indication of the concern of the Commission for older people, many of whom find medical costs rising sharply at the very time in their lives when incomes usually decrease.

We are pleased that a company with a good reputation such as yours has announced your hospital-surgical plan for senior citizens in Indiana; Your plan known as 65-Plus. We commend your company for its willingness to pioneer in this field and hope that still other companies will make available to people beyond 65 such coverage as you propose to provide in your 65-Plus Plan. The Commission is obviously in no position to recommend an insurance plan by one company over the plan offered by any other company, but we are certainly privileged to congratulate your company on making a plan available which may appeal to many people beyond the age of 65.

Yours truly,

George E. Davis
Chairman

D:h

FACT SHEET

65-Plus Hospital-Surgical Insurance Plan

Continental Casualty Company

What is 65-Plus?

A hospital-surgical insurance plan created especially for persons 65 years of age and over. It is the first such plan ever offered to the general public and fills one of the largest unmet needs in the field of health insurance. The policy has been approved by the insurance department of each of the states in which it is being offered.

Who Can Get It?

Any person is eligible who is now 65 or older and living in Connecticut, New York, New Jersey, Pennsylvania, Maryland, Delaware, Ohio, and The Distict of Columbia-provided he or she applies during the enrollment period starting January 15 and lasting through February 2, 1959. There is no upper age limit; more than 50 persons 100 years or over have enrolled in the four mid-western states--Iowa, Illinois, Wisconsin and Indiana--in which the plan has been introduced.

No Medical Examination.

No health questions are asked in the application and no medical examination is required.

Can Policy Be Cancelled or Modified?

Once issued, this policy may not be cancelled or modified by the company, except for non-payment of premium, unless all 65-Plus policies issued in the state are cancelled or so modified.

What Are Its Benefits?

The policy provides up to $10 per day for hospital room and board for a maximum of 31 days for each confinement; up to $100 allowance for miscellaneous hospital expenses and a surgical allowance from $5 up to $200, as set forth in a schedule in the policy. For example, up to $5 for removal of a toenail; up to $100 for an appendectomy; up to $200 for removal of a lung. There are no limits to the number of hospital confinements in any one year or other period of time. However, benefits for successive confinements for the same condition are limited to the maximum payable for any one confinement unless they are six months or more apart. If six months have passed, full benefits are again available.

Fact Sheet (cont'd)

What Expenses Are Not Covered?

It will not pay for hospital and surgical expenses covered by Workmen's Compensation or Occupational Disease Law or those resulting from war. Also not covered are expenses incurred in any Veterans' Administration or any federal, state or local government hospitals where the majority of the patients are mental or tubercular cases.

How May 65-Plus Be Purchased?

Application is made through coupons in advertisements appearing in major newspapers. The ads will appear in successive Sunday editions as well as some daily editions, beginning January 15, 1959.

When Does The Protection Start?

All policies will be effective on the closing date for enrollments. This gives a policyholder immediate protection for any illness or condition for which he has not received treatment or been advised to receive treatment. Disabilities beginning six months after the effective date of the policy are covered even if the condition causing the disability originated prior to the effective date of the policy.

How Much Does It Cost?

65-Plus costs only $6.50 per month. This compares favorably with comparable coverage for younger age groups. Such a low premium is made possible by low processing and handling costs and by volume enrollment.

Can The Premium Be Increased?

Although Continental does reserve the right to increase the premium, in no case may it do so for any individual policy. Any increase would have to apply to every 65-Plus policy issued in the state.

* * * * * * * * * * *

About Continental Casualty Company

One of the world's largest casualty companies, Continental Casualty Company has become known as "America's Number 1 Accident and Health Company". This is due to its aggressiveness in writing new types of coverage to fill unmet insurance needs. Among the types of coverage, Continental has pioneered are:

aviation, polio, sports, college student health plans, excess and surplus lines, errors and omissions, sub-standard, and professional association groups.

Among recent groups for which it has underwritten accident and health coverage are: United Nations truce teams, construction workers on atomic submarines and Distant Early Warning Radar lines, automobile racing drivers, and test pilots.

Organized in 1897, the company is part of the Continental--National Group, which also includes: Continental Assurance Co., National Fire Insurance Company of Hartford, Transportation Insurance Company and the Transcontinental Insurance Company. These companies comprise the nation's third largest insurance group.

Main offices of Continental Casualty Co. are at 310 S. Michigan Avenue, Chicago 4, Illinois.

Continental offices are as follows:

New York:	76 William Street New York 5
	1408 Ellicott Square Bldg. Buffalo 3
	1006-18 University Bldg. 120 E. Washington Avenue Syracuse 2
Connecticut:	1000 Asylum Avenue Hartford 15
Pennsylvania:	6 Penn Center Plaza Philadelphia 3
	312 Stanwix Street Pittsburgh 22
Maryland:	8 South Street Baltimore 2
Ohio:	607-610 Gwynne Blvd. Cincinnati, Ohio
	3121 Euclid Avenue Room 311 Cleveland 15, Ohio
	40 S. Third Street Columbus 15, Ohio

SUGGESTED COPY FOR ORGANIZATION NEWSLETTERS

There's good news for people 65 years and over in an announcement by one of the nation's largest insurance companies (Continental Casualty Company of Chicago). It is making a new form of hospital-surgical insurance available to senior citizens without any requirements for medical examination or restrictions as to maximum age.

Even conditions for which treatment has been given or recommended are covered six months after the effective date of the policy.

This pioneering insurance, called 65-Plus, will be offered for the first time in the following states: Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland, Ohio, and Washington, D. C. The enrollment period will be from January 15 to February 2, 1959. Anyone in these states who is 65 or over may sign up during the enrollment period by sending in coupons from newspaper advertisements.

This revolutionary type of coverage is the first and only plan to be offered on a wide scale to people already 65 years of age or over. 65-Plus was first offered in Iowa, Illinois, Wisconsin, Indiana, and California. In each of these states it has met with favorable reception by seniors and groups concerned with their health problems.

# # # # # #

HAROLD FAGGEN ASSOCIATES

ADMINISTRATIVE FILE
Health and Welfare
Faggen, Harold Associates
X

MEMORANDUM

May 5, 1958

TO: General Executive Board and Officers
International Brotherhood of Teamsters,
Chauffeurs, Warehousemen and Helpers of America

RE: Welfare and Pension Programs

In our opinion, the General Executive Board and the Officers of the International Union should have available all the facts concerning welfare and pension funds for which local unions and groups of local unions, such as state or regional conferences, are responsible. On the basis of knowledge of the facts, obtained through a national survey conducted by the International Union, the General Executive Board and the Officers would be able to make sure that all welfare and pension funds are in compliance with state and/or federal legislation and such union standards as they may wish to prescribe. Just as important, these facts would enable the General Executive Board and the Officers to formulate standards with respect to methods and costs of administration and benefit programs provided for members.

The International Union, in carrying through this job, could give an effective demonstration of self-policing that would at the same time result in greater protection for all members. Standards developed by the General Executive Board and the Officers could show the way for local unions and other bodies of the International Union to eliminate excessive commissions and other legal but high insurance company charges which affect the package of benefits that can be provided with a given amount of money contributed by employers.

Some funds may be paying excessive insurance company charges because of lack of knowledge. Others may be paying excessive charges because of the small size of the group insured. On the basis of complete data which can be collected only by the International Union, it will be possible to evaluate the costs of each program and to formulate standards which would result in improved benefits for many members, with no increase in employer contributions. With the assistance of the International, it is possible for small funds to pool their resources and experience on a national or regional basis and thereby reduce the costs of their current benefit programs or broaden the scope of benefits within the same cost structure. This may be done either through insurance companies or on a self-insured basis, where conditions warrant.

Administration is another area in which the International Union can give direction. Unnecessary and excessive administrative costs cannot be detected by any broad rule of thumb. Each welfare or pension fund and its costs of administration must be analyzed in the context of its specific operations. For example, in a very large fund, administrative expenses of three percent might turn out, as a result of careful analysis, to be excessive, while ten percent might not be excessive for a small fund. Only the International Union can collect all the data required for a meaningful analysis of this important factor in the operation of welfare and pension funds.

The program which is recommended to the General Executive Board contemplates first the completion of an inventory of all welfare and pension programs. This inventory would not be limited to those funds which are jointly administered by the Union and management, but would also include those situations in which employers provide benefits without accounting to local unions.

This inventory would be compiled through use of a questionnaire similar to the one attached to this memorandum to be sent by the International Union to each local union. A sample questionnaire that has been properly completed should be sent along together with a letter containing such instructions as the General Executive Board and the Officers believe would encourage clear and prompt replies.

After the inventory has been compiled, the General Executive Board and the Officers could determine which particular problems should be analysed and in what order of priority. The inventory questionnaire would be followed by a report form similar to the one attached to this memorandum. This report form would be sent to each welfare and pension fund disclosed by the questionnaire as well as to employers who unilaterally provide welfare and/or pension benefits. A completed sample report form should be sent along together with a letter containing such instructions as the Executive Board and the Officers believe would expedite the return of the reports by funds and employers.

When the reports are received by the International Union, they will be evaluated by specialists in the pension and welfare fund field on the basis of the priorities set by the General Executive Board and the Officers, following the compilation of the inventory of welfare and pension programs.

On the basis of this second phase of the survey, the General Executive Board and the Officers would be able to formulate and establish practical standards for each category of fund and program covering all its members. Once the inventory is complete, it can be kept up-to-date so that the General Executive Board and the Officers will know the current status of funds and programs. The report form can be filed with the International Union on an annual or biennial basis. This would make possible a systematic review by the General Executive Board and Officers to make sure at all times that the members are receiving the most from each dollar of employer contributions.

INTERNATIONAL BROTHERHOOD OF TEAMSTERS
CHAUFFEURS, WAREHOUSEMEN AND HELPERS OF AMERICA
25 Louisiana Avenue, NW
Washington 1, D.C.

Welfare and Pension Report

1. Local 1000 Welfare Fund
Name of Fund
Year Orig. Estab. 1953

123 N. 10th Street Brooklyn, N.Y.
Address

2. Members of Board of Individual Trustees, Pension Board, Committee or other similar body:

Name Title Address

a) Designated by employer(s):

John Jones Jones Transport Corp. 510 S. 15th St. Brooklyn, N.Y.

Henry Smith Smith Corporation 122 S. 19 St. Brooklyn, N.Y.

b) Designated by labor organization(s) or employees:

William Johnson 123 N. 10 St. Brooklyn N.Y.

Robert Jameson 123 N. 10 St. Brooklyn N.Y.

c) Other members:

Samuel Waterbury Impartial Umpire 490 Fifth Ave N.Y.C.

3. Officer of Fund to whom communications should be directed:

William Johnson
Name

Secretary
Title

4. Participating labor organizations

Name Address

Local 1000 I.B.T. 123 N 10th Street Brooklyn N.Y.

5. Number of participating employers as of July 1, 1953 14

HAROLD TAGGEN ASSOCIATES, INC.

6. Approximate number of employees covered as of July 1, 1958 800

7. Benefits:

a) Check type or types of benefits provided by Funds

Death	✓	Medical	✓
Disability	✓	Unemployment	
Hospitalization	✓	Vacation	
Surgical	✓	Pension or retirement	

Other (Specify) ______________________

b) Insurance Companies, if any, and types of benefits included in policies

Name of Company	Type of Benefit
Bete Insurance Company	Death, Disability, Surgical, Medical
Blue Cross	Hospitalization

c) Insurance broker or agent; consultant and/or actuary

Name	Address
None	

d) Bank or Trust Company, if any, appointed as trustee or agents

Name	Address

8. Check documents and other papers, copies of which are submitted herewith

a) Plan as amended to date

✓ b) Trust Indenture as amended to date ✓

c) Any separate Trust Indenture or other instrument appointing bank or trust company to act as trustee or agent

d) Collective bargaining agreement(s), or the provision or provisions thereof, relating to the Plan or Fund ✓

✓ e) Any booklet or other written material descriptive of the Plan or Fund that is given or made available to participating employees ✓

f) Latest financial statement or accountant's report ✓

✓ g) Latest report filed with State Insurance or Banking Department ✓

✓ h) Latest report filed with U. S. Labor Department

Signature William Johnson

Title Secretary

HAROLD FAGGEN ASSOCIATES

INTERNATIONAL BROTHERHOOD OF TEAMSTERS
CHAUFFEURS, WAREHOUSEMEN AND HELPERS OF AMERICA
25 Louisiana Avenue, NW
Washington 1, D.C.

Welfare and Pension Report

1. ______________________________ Year Orig. Estab. __________
Name of Fund

____
Address

2. Members of Board of Individual Trustees, Pension Board, Committee or other similar body:

Name — Address

a) Designated by employer(s):

b) Designated by labor organization(s) or employees:

c) Other members:

3. Officer of Fund to whom communications should be directed:

______________________________ ______________
Name — Title

4. Participating labor organizations

Name — Address

5. Number of participating employers as of July 1, 1958 ______________

6. Approximate number of employees covered as of July 1, 1958 ____________

7. Benefits:

a) Check type or types of benefits provided by Fund:

Death	______	Medical	______
Disability	______	Unemployment	______
Hospitalization	______	Vacation	______
Surgical	______	Pension or retirement	______

Other (Specify) ____________

b) Insurance Companies, if any, and types of benefits included in policies:

Name of Company	Type of Benefit

c) Insurance broker or agent; consultant and/or actuary:

Name	Address

d) Bank or Trust Company, if any, appointed as trustee or agent:

Name	Address

8. Check documents and other papers, copies of which are submitted herewith:

a) Plan as amended to date ______

b) Trust Indenture as amended to date ______

c) Any separate Trust Indenture or other instrument appointing bank or trust company to act as trustee or agent ______

d) Collective bargaining agreement(s), or the provision or provisions thereof, relating to the Plan or Fund ______

e) Any booklet or other written material descriptive of the Plan or Fund that is given or made available to participating employees ______

f) Latest financial statement or accountant's report ______

g) Latest report filed with State Insurance or Banking Department ______

h) Latest report filed with U. S. Labor Department ______

Signature ____________

Title ____________

HAROLD FAGGEN ASSOCIATES

853 BROADWAY
NEW YORK 3, N. Y.
GRAMERCY 7-5106

January [illegible], 1957

ADMINISTRATIVE FILE
Health and Welfare
Faggen, Harold

Mr. Dave Beck, President
International Brotherhood of Teamsters
Hotel Monte Carlo
Miami Beach, Florida

Dear Mr. Beck:

I think you will be interested in the enclosed material which represents a unique point of view on welfare and pension funds.

While these funds are in their day to day operations a mass of technical details and procedures, historically they represent one of Labor's important contributions to the ever expanding standard of living of the American wage earner. The accelerating growth of welfare and pension funds calls upon Organized Labor to once again weave into the American economic fabric another new and important thread in its typically responsible fashion.

May we point out that ours is the only firm of actuarial consultants in the United States which limits its professional activities to funds established by unions through collective bargaining. We are not insurance brokers or investment counselors.

More than eleven years have passed since our organization did the actuarial valuation for the first national multi-employer self-insured pension fund. In these eleven years we have had ample and recurring evidence that the interests of union welfare and pension funds are not necessarily synonymous with the interests of other funds. We have never previously nor do we intend to make our professional resources available to funds of organizations not in the mainstream of Organized Labor.

Mrs. Marie Duke, the director of our research and public information department, will be in Miami Beach next week at the Brazil Hotel. She will be happy to place at your disposal the resources of our organization. Please do not hesitate to call upon her.

Sincerely yours,

Harold Faggen

Harold Faggen

HF/ts
Encs.: Services Provided to Health, Welfare and Pension Funds
Self-Insurance Comes of Age
Transfer of Credits Between Pension Funds
Filing Registration Statements Under the N. Y. Welfare Fund Act of 1956
Weekly News Digest, January 11, 1957

HAROLD FAGGEN ASSOCIATES

883 BROADWAY
NEW YORK 3, N. Y.
GRAMERCY 7-5106

Summary of Facilities and Services

for

Labor-Management Health and Welfare Funds

Facilities: We have on our premises, under the direction of our own personnel, a full complement of I.B.M. punch card equipment, electronic sorters, tabulators, calculators, etc.

Personnel: Our actuarial department consists of actuaries, assistant actuaries, mathematicians and actuarial clerks. The personnel who work on actuarial problems have had many years of experience in the health and welfare field. Our actuarial department is always under the full-time supervision of one or more Fellows of the Society of Actuaries.

Our organization has trained specialists in various fields covering the establishment and operation of health and welfare funds. These include record-keeping systems, claim processing, economics, law, accounting, etc. While we do not practice either law or accounting, we are able to render assistance to the accountants and counsel retained by the health and welfare fund.

We are not brokers and do not represent or accept fees from any insurance company, hospital or medical service organization, bank or trust company. We work only on a fee-for-service basis for boards of trustees of health and welfare funds.

Experience: Our experience in the health and welfare field is very extensive and goes back to the establishment of some of the earliest joint labor-management funds in the United States. We have set up many successful self-insured funds, including the first self-insured health and welfare fund operating on a national scale. The scope of our experience in this field is illustrated by the appended partial list of health and welfare funds which we serve as consultants.

Initial Study: We prepare an I.B.M. punch card for each active member of the fund. These cards contain basic data for each member and his dependents, such as birth dates, number of children, etc. We also prepare an I.B.M. punch card for each terminated member for as long as the records are available. These cards then become the basis for developing projections of current and future costs of specific benefits for members and dependents.

We develop, on the basis of these actuarial projections, alternative health and welfare plans for the consideration of the trustees. These plans are geared to the financial resources of the fund, to the developing patterns of future costs and to accumulation of proper reserves.

Insured Plan: After the trustees have adopted a plan that meets the needs of the members and the conditions of the industry, we draw up specifications that are submitted to insurance carriers for competitive bidding. Bids from the insurance companies are then evaluated so that the trustees can obtain the most in the way of benefits for the minimum in net costs.

Self-Insured Plan: When the fund has adequate resources and we determine that the members can benefit from self-insurance, we set up all the details of a self-insured program and develop the necessary mechanics of claim control and processing. We furnish the fund at the end of each benefit year with an actuarial balance sheet, detailing contingent assets and liabilities and allocating reserves for incurred claims, contingencies, etc.

Consulting Service: After a health and welfare plan has been launched, many complicated problems have to be solved in administration, claim processing, and maintaining a check on the actuarial makeup of the membership. On a continuing basis, we render the following services:

1. Install a complete system of record-keeping, including all forms required for every phase of the fund's operations. In this connection, we instruct and train the personnel of the fund office in the maintenance of all necessary records, claim processing, etc.

2. A senior member of our organization attends meetings of the trustees and reports on all developments in the fund's operations that are within the scope of our work.

3. For insured funds, we analyze the annual reports submitted by insurance carriers and check on their retention and reserve figures. The contract with the insurance carrier is re-negotiated each year so that the fund's net costs are kept in line with competitive trends in the field.

4. For self-insured funds, we prepare detailed claim and cost analyses to ascertain whether net costs are being kept in line with actuarial projections and to establish the basis for improving benefits within a sound financial framework.

5. For both insured and self-insured funds, we carry on continuous actuarial studies to check on the composition of the membership, shifts in marital and dependency status, etc. These studies provide the trustees with guides to future costs so that benefits can be regularly improved on the basis of sustained income. The trustees can thus prevent the fund from over-extension which in turn can lead to cuts in benefits or an urgent immediate need for higher contributions.

Fees: Our fees for services are calculated on the amount of work we will have to perform in a given case. As the result of working with many funds, we have developed rates which take into account the fact that our services are of a continuing nature. We do not make a large charge for initial costs but amortize these costs over a long period of time. Our fees do not increase the administrative costs of a health and welfare fund. If it has an existing contract, we re-negotiate the insurance company's retention down to the lowest competitive level. For a new fund, we perform this service in obtaining its first insurance contract. With a fund for which we recommend self-insurance, substantial savings are realized from the elimination of insurance company retention costs. In every case, funds which retain our organization achieve large savings in record-keeping, administration and lower net costs of benefit programs. The annual fee for our comprehensive services is all inclusive and we never make extra charges for any expenses of any kind.

Partial List of Welfare Funds for Which We Provide

Actuariel and Consulting Services

Sickness and Accident Fund, Local 1 - covering members of the Amalgamated Lithographers of America, AFL-CIO.

Bricklayers Welfare Fund - covering members of the Bricklayers, Masons and Plasterers International Union, AFL-CIO.

Marble Industry Trust Fund - covering members of the Bricklayers, Masons and Plasterers International Union, AFL-CIO; International Association of Marble, Slate and Stone Polishers, Rubbers and Sawyers, Tile and Marble Setters' Helpers and Terrazzo Workers' Helpers, AFL-CIO; and International Association of Marble and Stone Polishers, Rubbers and Sawyers, Tile, Marble, Slate, Stone, Mosaic and Terrazzo Helpers, AFL-CIO.

Mosaic and Terrazzo Welfare Fund - covering members of the Bricklayers, Masons and Plasterers International Union, AFL-CIO; and International Association of Marble, Slate and Stone Polishers, Rubbers and Sawyers, Tile and Marble Setters' Helpers and Terrazzo Workers' Helpers, AFL-CIO.

Mason Tenders District Council Welfare Fund - covering members of the International Hod Carriers and Common Laborers' Union of America, AFL-CIO.

Brewery Workers Welfare Fund - covering members of the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, AFL-CIO.

Social Security Department UAW Local 259 - covering members of the International Union, United Automobile, Aircraft, Agricultural Implement Workers of America, AFL-CIO.

Local 365 UAW, AFL-CIO Welfare Fund - covering members of the International Union, United Automobile, Aircraft, Agricultural Implement Workers of America, AFL-CIO.

Insurance Fund Sheet Metal Workers International Association Local Union No. 137 - covering members of the Sheet Metal Workers International Association, AFL-CIO.

Joint Welfare Fund International Union of Operating Engineers Local Unions 14, 14B, 15, 15A, 15C - covering members of the International Union of Operating Engineers, AFL-CIO.

Engineers Joint Welfare Fund Local Unions 17, 106, 410, 545, 832 - covering members of the International Union of Operating Engineers, AFL-CIO.

United Furniture Workers Insurance Fund - covering members of the United Furniture Workers of America, AFL-CIO.

Local 76-B Security Fund - covering members of the United Furniture Workers of America, AFL-CIO.

Local 76 Security Fund - covering members of the United Furniture Workers of America, AFL-CIO.

Dining Room Employees Union Local 1, Welfare Fund - covering members of the Hotel and Restaurant Employees and Bartenders International Union, AFL-CIO.

Local 1199 Drug Store Welfare Plan - covering members of the Retail, Wholesale and Department Store Union, AFL-CIO.

United Optical Workers Insurance Fund - covering members of the International Union of Electrical, Radio and Machine Workers, AFL-CIO.

Tile Layers Union Local #52, N.Y. Health and Welfare Fund - covering members of the Bricklayers, Masons and Plasterers International Union, AFL-CIO.

Tile Layers Helpers Union Local #88, N.Y. Welfare Fund - covering members of the International Association of Marble, Slate and Stone Polishers, Rubbers and Sawyers, Tile and Marble Setters' Helpers and Terrazzo Workers' Helpers, AFL-CIO.

Local 147 Construction Workers Welfare Fund - covering members of the International Hod Carriers and Common Laborers' Union of America, AFL-CIO.

Perishable Food Industry Welfare Fund - covering members of the Office Employees International Union, AFL-CIO.

United Wire, Metal and Machine Health and Welfare Fund - covering members of the International Brotherhood of Electrical Workers, AFL-CIO; and the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, AFL-CIO.

Butchers Union Local No. 563 Health and Welfare Fund - covering members of the Amalgamated Meat Cutters and Butcher Workmen of North America, AFL-CIO.

HAROLD FAGGEN ASSOCIATES

853 BROADWAY
NEW YORK 3, N. Y.
GRAMERCY 7-5106

Summary of Facilities and Services

for

Labor-Management Pension Funds

Facilities: We have on our own premises, under the full-time control of our own personnel, a complete installation of I.B.M. punch card equipment, electronic sorters, tabulators, calculators, etc.

Personnel: Our actuarial department consists of actuaries, assistant actuaries, mathematicians, and actuarial clerks. Everyone who works on an actuarial problem has had many years of experience in the field. The actuarial department is always under the full-time supervision of one or more Fellows of the Society of Actuaries.

In addition to our actuarial department, we have persons with training in various fields related to the setting up and operation of a pension fund. These include law, accounting, economics, etc. While we do not practice either law or accounting, we are able to render effective assistance to the accountants and counsel who are retained by the pension fund. We have personnel who specialize in practice before the U. S. Treasury Department so that we are familiar with the many problems which may be encountered.

We are not brokers and do not represent or accept fees from any insurance company, bank, trust company, or any other organization, except the boards of trustees responsible for the pension funds.

Experience: Our experience in actuarial studies and formulation of pension plans for labor-management pension funds extends back to the formulation of the first such plan in the U. S. An idea of the scope of our experience in this field can be obtained from the partial list of pension funds attached hereto.

Actuarial Survey: In making an actuarial survey and developing a pension plan, we render the following services:

1. We prepare an I.B.M. punch card for each member of the pension fund. These cards contain all data for each member such as date of birth, date of entry into the union, date of current employment, etc. These cards are then used for a detailed actuarial analysis of the membership.

2. We prepare an I.B.M. punch card for each terminated member for as long a period as the records are available. These cards then become the basis of an analysis of the rate of termination of membership which can reasonably be expected in the future.

3. Using those actuarial factors and conservative assumptions with regard to interest earnings, mortality, etc., we prepare alternative pension plans for the consideration of the trustees.

4. After the terms of a pension plan geared to the needs of the members and conditions in the industry have been approved by the trustees, we prepare the necessary papers for submission to the U.S. Treasury Department to insure tax exempt status for the pension fund and for contributions made to the fund by employers.

5. We prepare all necessary booklets and other material for distribution to contributing employers and covered members of the fund.

Consulting Service: There are many more complicated problems encountered in the operation of a pension plan than in its original formulation. In addition, it is necessary to make annual studies of the pension plan in order to have an effective test of the original assumptions and to determine the impact of developing new trends. In this connection, we render the following services:

1. Install a complete system of record keeping including all special forms required or desirable in the operation of the pension fund. We instruct and train the personnel of the fund office in the proper maintenance of all necessary fund records.

2. Attend all meetings of the trustees with a senior member of our organization reporting and advising on those matters within the scope of our services.

3. Analyze all pension applications and certify the adequacy of supporting documents, accuracy of calculations, etc.

4. Prepare annual actuarial valuations of the pension plan, including everything necessary to retain the continued qualification of the plan and trust as tax exempt.

5. Perform all other actuarial and/or consulting services which may prove either necessary or desirable in the efficient and economical operation of the pension fund.

Fees: Our fees for services are calculated on the basis of the amount of time which we estimate will be required in any given case. As a result of working with many pension funds, we have developed rates which take into account the fact that our services are generally of a continuing nature. We do not make a large charge for starting costs but rather amortize these costs over a long period of time. Our annual fee is all-inclusive and we never make any extra charges for expenses of any kind.

Partial List of Pension Funds for which We Provide

Actuariel and Consulting Services

Pension Fund, Local 1 - covering members of the Amalgamated Lithographers of America, AFL-CIO.

Bricklayers Pension Fund - covering members of the Bricklayers, Masons and Plasterers International Union, AFL-CIO.

Marble Industry Pension Trust Fund - covering members of the Bricklayers, Masons and Plasterers International Union, AFL-CIO; International Association of Marble, Slate and Stone Polishers, Rubbers and Sawyers, Tile and Marble Setters' Helpers and Terrazzo Workers' Helpers, AFL-CIO; and International Association of Marble and Stone Polishers, Rubbers and Sawyers, Tile, Marble, Slate, Stone, Mosaic and Terrazzo Helpers, AFL-CIO.

Mosaic and Terrazzo Pension Fund - covering members of the Bricklayers, Masons and Plasterers International Union, AFL-CIO; and International Association of Marble, Slate and Stone Polishers, Rubbers and Sawyers, Tile and Marble Setters' Helpers and Terrazzo Workers' Helpers, AFL-CIO.

Mason Tenders District Council Pension Fund - covering members of the International Hod Carriers and Common Laborers' Union of America, AFL-CIO.

Brewery Workers Pension Fund - covering members of the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, AFL-CIO.

New York State Teamsters Conference Pension and Retirement Fund - covering members of the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, AFL-CIO.

Local 259 UAW Pension Fund - covering members of the International Union, United Automobile, Aircraft, Agricultural Implement Workers of America, AFL-CIO.

Local 365 UAW Pension Fund - covering members of the International Union, United Automobile, Aircraft, Agricultural Implement Workers of America, AFL-CIO.

Mergenthaler Linotype Company, and Local 770 UAW Pension Plan - covering members of the International Union, United Automobile, Aircraft, Agricultural Implement Workers of America, AFL-CIO.

Intertype Corporation and Local 671 UAW Pension Plan - covering members of the International Union, United Automobile, Aircraft, Agricultural Implement Workers of America, AFL-CIO.

Sheet Metal Workers Local 137 Retirement Fund - covering members of the Sheet Metal Workers International Association, AFL-CIO.

Housewreckers' Union Local #95 Pension Fund - covering members of the International Hod Carriers and Common Laborers' Union of America, AFL-CIO.

Joint Pension Fund International Union of Operating Engineers Local Unions 14, 14B, 15, 15A, 15C - covering members of the International Union of Operating Engineers, AFL-CIO.

New York City District Council Carpenters Pension Fund - covering members of the United Brotherhood of Carpenters and Joiners of America, AFL-CIO.

United Furniture Workers Pension Fund - covering members of the United Furniture Workers of America, AFL-CIO.

Local 76-B Pension Fund - covering members of the United Furniture Workers of America, AFL-CIO.

Upholstery Workers Pension Fund - covering members of the United Furniture Workers of America, AFL-CIO.

Spring Workers Pension Fund - covering members of the United Furniture Workers of America, AFL-CIO.

Steinway and Sons Pension Fund - covering members of the United Furniture Workers of America, AFL-CIO.

Bartenders Union Local 15 Pension Fund - covering members of the Hotel and Restaurant Employees and Bartenders International Union, AFL-CIO.

Dining Room Employees Union Local 1, Restaurant Industry Pension Fund - covering members of the Hotel and Restaurant Employees and Bartenders International Union, AFL-CIO.

Motion Picture Laboratory Technicians Local 702 Pension Fund - covering members of the International Alliance of Theatrical Stage Employees and Motion Picture Machine Operators of the United States and Canada, AFL-CIO.

65 Security Plan Pension Fund - covering members of the Retail, Wholesale and Department Store Union, AFL-CIO.

Store Workers Retirement Plan - covering members of the Retail, Wholesale and Department Store Union, AFL-CIO.

Local 1199 Pension Fund - covering members of the Retail, Wholesale and Department Store Union, AFL-CIO.

Local 463 IUE Pension Fund - covering members of the International Union of Electrical, Radio, and Machine Workers, AFL-CIO.

Cake Bakers Union Local 51 Pension Fund - covering members of the Bakery and Confectionery Workers International Union of America, AFL-CIO.

realize how much they are paying for non-existent services.

BENEFITS—NOT COST-PLUS

Insurance companies are far from being "public" servants in the field of group insurance. They are in business for the purpose of making money. They do not control or protect the assets of a fund. That is the responsibility of the fund trustees whether they operate a self-insured or an insured plan. Insurance companies work on a pay-as-you-go basis so long as they can continue to collect premiums. A fund may be insolvent as far as the long swing is concerned, but no insurance company will warn the trustees that their current premium payments are out of line with the long-term liabilities of their fund.

The insurance industry argues that workers covered by self-insured plans do not have their benefits guaranteed. But what insurance company guarantees group insurance benefits beyond the one year term contract with the fund? If money is not available for the payment of premiums, the contract goes out the window. If experience turns sour, premiums are raised or benefits must be cut. No one expects the insurance companies to subsidize welfare or pension funds, but the least they can do is to state publicly that they provide benefits only when they can make money by doing so.

SELF-INSURANCE AND SECURITY

Despite the threats of the insurance industry, self-insurance has come of age and is here to stay. The peculiar problems of welfare and pension funds on the whole can be dealt with most adequately through self-insurance. Self-insurance can provide more benefits per dollar of contribution and that is why self insurance will gradually eliminate the insurance companies from the welfare and pension field. If the insurance companies will recognize this fact, they can perform a real service by providing pooled re-insurance against catastrophic situations. They will then be applying the true principles of insurance and playing a constructive role in the protection that the labor movement is providing for its millions of members and their families.

The growth of self-insurance in New York State is being paralleled by developments in other states. What could not have been foreseen by legislators half a century ago will have to be taken into account by administrative and legislative action now.

Labor-management welfare and pension funds are a peculiarly American development in the quest of our people for ever-greater security. Labor unions have been winning increasing agreement and support from management that these funds shall serve to secure an ever expanding standard of living for the wage earner. These funds not only supplement governmental programs, but stimulate their development.

Memoranda will be sent to all interested persons on request. Specific inquiries addressed to our Public Information Department will be answered without obligation.

MEMORANDUM

January [illegible], 1957

TO: UNION WELFARE AND PENSION FUNDS

FROM: HAROLD FAGGEN ASSOCIATES

RE: SELF-INSURANCE COMES OF AGE

Self-insurance came of age when the Superintendent of Insurance and the Attorney-General of New York State agreed that labor-management welfare and pension funds may legally provide and pay benefits to employees and their dependents directly. *The State of New York thus gave formal approval to the operations of the many self-insured funds which already cover numerous of thousands of workers and their dependents.* The subsequent development of self-insured welfare and pension programs will undoubtedly bring about the gradual elimination of insurance companies from this field, except for funds covering relatively small groups of workers or workers in hazardous occupations. Insurance companies can play a useful role in the future by acting as re-insurers and applying the principles of insurance to cover extreme or catastrophic situations.

HISTORICAL DEVELOPMENT

Self-insurance came into being out of the historical development of trade union programs for the protection of members. Mortuary and sickness benefits were provided on the basis of the dues structures of unions. The unions traditionally paid such benefits on a self-insured basis and, with rare exceptions, did not purchase their benefits from insurance companies. Unions recognized long ago that the payment of benefits was dependent on the size of their treasuries or their special funds and not on the participation of a middleman—an insurance company.

The trade unions were aware, perhaps instinctively, that providing protection for a group against the hazards of death or illness is not based on the principles of individual insurance. Actually, group insurance and group annuities are provided by insurance companies on a cost-plus basis. The particular fund gets what it pays for, minus a portion of the premium retained by the insurance company for taxes, commissions, profits, etc. If the experience of the fund turns sour, it must pay higher premiums or face cancellation of its contract by the insurance company.

Consequently, self-insurance is the more economical method of providing welfare and pension benefits, unless the covered group is so small or the occupation so hazardous that the fund cannot safely self-insure. By self-insuring, a fund can, in almost all instances, achieve sub-

stantial savings with safety by eliminating the take of the insurance company which provides the same or lesser benefits at higher cost.

Funds have increasingly come to this conclusion through their own experience. Welfare and pension programs were transformed from benefits based on dues to benefits paid from contributions made by employers under the terms of collective bargaining agreements. At first, these contributions were made to funds under the sole administration of unions. With the enactment of the Taft-Hartley Law, contracts specified that contributions for welfare and pension purposes be segregated in funds that are jointly administered by union and employer trustees.

The important point to emphasize is that the method of administering the funds changed, but the objective of the unions remained the same —that is, to provide various benefits for members and their dependents. Welfare and pension benefits became an integral part of the collective bargaining package and workers paid for these benefits by foregoing all or part of possible wage increases.

UNION RESPONSIBILITIES

Unions, particularly those participating in multi-employer funds, have a fundamental stake in assuring the collection of contributions under the terms of their contracts, in keeping accurate records, and above all, in providing maximum benefits from the available monies. In order to accomplish these tasks, the fund trustees must maintain an office. *No insurance company can function in the same way that a fund office must and does operate. The insurance company is primarily a premium collector. Generally the fund office processes its own claims, limiting the insurance company to the role of honoring drafts drawn against the fund's account.*

Once fund trustees recognized these facts, they began, out of their own experience, to question the role of insurance companies, first in the pension field and then in the welfare field. Pension fund trustees in the majority of cases went in for self-insurance, because they were convinced that they were buying "insurance" while in actuality they were paying for banking services on a percentage basis.

Gradually, however, more and more insured welfare funds began turning to self-insurance as a means of achieving substantial savings. Some welfare funds provided benefits on a self-insured basis from the very beginning of their operations, as the next step in the historical development of the early union programs for mortuary and other benefits. Other funds, however, turned to self-insurance as they realized from their experience that they were paying substantial sums to insurance companies for no essential services.

FACTS VERSUS PROPAGANDA

Such funds, as they began asking questions about self-insurance, ran into a propaganda barrage. They were told that they would be exposing their members to undue risks, that they would not have the know-how to operate on their own, and finally that they would be violating the law. Brokers and insurance companies interested in the "take" from insured funds made these attacks, although they knew their arguments were not valid.

The fact is that the vast majority of funds face no undue risks when they self-insure because an insurance company simply pays out the fund's own money for benefits and retains a substantial portion for itself.

The fact is that a typical fund processes its own claims and in self-insuring simply issues drafts against its own bank account instead of the account of the insurance company.

The fact is that the Insurance Law of New York State never was a barrier to self-insurance, despite the protestations of individuals with selfish interests who raised questions designed to obstruct self-insured operations.

The fact is that competent advisors have recommended self-insurance for welfare funds for more than ten years.

The fact is that hundreds of thousands of members of international unions like the I.L.G.W.U., the United Furniture Workers, as well as districts and locals affiliated with the Bricklayers, Retail, Wholesale & Department Store, U.A.W., I.U.E., Sheet Metal Workers and other international unions have already received millions of dollars in benefits from self-insured welfare funds.

OFFICIAL RECOGNITION

Now both the Superintendent of Insurance and the Attorney-General have recognized accomplished facts. They have "legalized" self-insurance in the sense that the brokers and insurance companies can no longer rely on its supposed illegality as their ace in the hole. The Superintendent of Insurance has stated that, "Any distinction between the self-administration of union funds and the self-administration of funds . . . which are administered by trustees is a distinction of form rather than of substance. The purposes for which both types of funds are created are the same."

The Attorney-General, in rendering his opinion on the legality of jointly administered self-insured welfare and pension funds, has stated that such funds ". . . possess all the essential characteristics of welfare funds administered by labor organizations themselves and are used for the same purposes, namely, to provide welfare benefits inherent in labor organization membership, so that to say that a jointly administered fund is not entitled to the same exemption status as a fund administered by a labor organization itself is to abandon altogether the basic intent of the exemption statute. . . . Both types of funds exist and function as sources of payment of welfare benefits to members of labor organizations and thus both must be regarded as within the exemption provisions of Section 466 of the Insurance Law."

THE PUBLIC'S INTEREST

The public has won an important fight in this clarification of the legality of self-insurance. It makes possible the realization of the objective laid down by the founding convention of the AFL-CIO in its resolution on health and welfare plans which stated: "Prior to the initial establishment of the plan, the relative advantages of all the alternative available methods of providing health and welfare benefits should be fully explored, including self-insurance. . . ."

This objective is sound since it does not set up self-insurance as mandatory, but emphasizes that it should be included in the study made by trustees of alternative methods of providing welfare benefits. The important thing is that self-insurance should be studied; it should not be arbitrarily excluded on the grounds that it is unworkable or undesirable or illegal.

This approach is important, because the insurance industry has intensified its attacks on self-insurance, conveniently overlooking the facts which were published in the press. It was not self-insured funds, but insurance companies that paid unconscionable commissions and other fees to brokers. These commissions and fees for which no real services were performed were paid with the full knowledge of the Insurance Department. The trustees of self-insured funds are directly involved in the operations of their funds. They have not been misinformed by certain brokers who have concealed the amounts of their commissions, nor have they been kept in ignorance by some insurance companies who maintained that the amounts paid as commissions were a matter of private contract between themselves and brokers.

As a matter of fact, many trustees of insured plans will learn for the first time what their brokers are making in the way of commissions under the new law enacted by the Legislature for control of welfare and pension funds. Public disclosure is not something that self-insured funds are concerned about; their operations have always lived up to the provisions of the new law. It is the broker who is worried and so is the insurance company for which he works, because for the first time many trustees will

MEMORANDUM

December 1, 1956

TO: UNION WELFARE AND PENSION FUNDS

FROM: HAROLD FAGGEN ASSOCIATES

RE: PROTECTING PENSION CREDITS OF MEMBERS TRANSFERRING TO OTHER FUNDS

Pension funds based on the collective bargaining agreements of local unions face the growing problem of safeguarding the rights of members who transfer to the jurisdiction of another local union by moving to another area, changing their craft or their industry. In transferring, workers generally lose their pension credits in the original fund and must start anew. Older workers are hard hit by such transfers since they usually cannot accumulate sufficient credits in the new fund to become eligible for its benefits.

A number of funds which retain us as actuaries and consultants have asked us to work on transfer problems. Their goal is the maintenance of earned pension credits when a worker moves from the jurisdiction of the collective bargaining agreement of one local union to the contract jurisdiction of other local unions.

We have developed solutions for local unions in a few large industries and are working on similar problems in other industries. Our solutions are equitable to the participating funds, are based on actuarial studies of each specific situation, and are acceptable in principle to the United States Treasury Department, which must approve them as amendments to existing pension plans. We are therefore making the results of our work available to all interested trustees facing similar problems.

The essence of the solution is for two or more pension funds to enter into reciprocal agreements under which a member transferring from one fund to another maintains his earned pension credits in the original fund. Before the details of a reciprocal agreement can be worked out, it is necessary to determine actuarially whether each reciprocity will harm any of the participating funds.

Each fund that wishes to participate in a reciprocal agreement must be studied carefully to make certain it can afford the additional costs of maintaining the earned credits of a covered member who transfers to a reciprocating fund. (All funds have termination rates which are a source of actuarial gains. As terminations are reduced, the fund's gains become smaller.)

We have drawn up reciprocal agreements along the following lines. Fund A and Fund B, to use a simple example, amend their pension plans to provide for the maintenance of the pension credits of a member who, after earning a required minimum number of credits, transfers from one fund to the other. Upon transferring to Fund B, he begins accumulating another set of credits. He will be eligible to apply for retirement if he earns a minimum number of credits in Fund B.

If he fulfills these two sets of requirements, the member at retirement age applies for a partial pension from Fund A and another partial pension from Fund B. Each fund is responsible under its rules of eligibility for a partial pension, based on the credits earned by the member applying for retirement from both funds.

For example, Fund A provides for a pension of $50 a month to a member who has 15 years of earned credits and Fund B pays a pension of $40 a month to a member with at least 10 years of earned credits. Suppose a member had 10 years of earned credits with Fund A before he transferred to Fund B, and he earned 5 years of credits with Fund B before applying for retirement at age 65.

Fund A pays the member 10/15ths of its normal $50 pension, or $33.67 a month. Fund B pays the member 5/15ths of its normal $40 pension, or $13.33 a month. The total amount of his two partial pensions from both funds therefore amounts to $47 a month.

A similar formula can be applied to funds with varying rates of contributions, pension benefits and eligibility rules. The important point is that within the context of its own rules, a fund is liable only for a partial pension to a transferring member and that partial pension must not impair the fund's financial stability.

Collectively bargained pensions stem from recognition of need for supplementary income for retired workers. The trend in some industries is the development of a national system of reciprocal agreements which will guarantee the worker that his union pension (which may come from many funds) will belong to him as does his Social Security pension.

Memoranda will be sent to all interested persons on request. Specific inquiries addressed to our Public Information Department will be answered without obligation.

TO: UNION WELFARE AND PENSION FUNDS

FROM: HAROLD FAGGEN ASSOCIATES
Actuarial Consultants

RE: FILING REGISTRATION STATEMENT UNDER THE NEW YORK STATE EMPLOYEE WELFARE FUND ACT OF 1956

Under the Employee Welfare Fund Act passed by the New York State Legislature earlier this year, union pension funds and welfare funds which were in existence on September 1, 1956 must file Registration Statements on or before November 30, 1956. The Attorney General has ruled that registration requirements are applicable only to union funds which are administered by a joint labor management board of trustees.

Funds operated by a union alone need not file any Registration Statements.

The Employee Welfare Fund Act of 1956 provides that a welfare or pension fund may be under the jurisdiction of either the New York State Insurance Department or the Banking Department. Practically every pension or welfare fund has received registration forms from the New York State Insurance Department together with instructions for filing. Many of the same funds have received forms from the Banking Department with similar instructions for filing.

This apparent duplication raises some serious problems. Aside from the task of filling in two sets of forms and supplying a number of copies of various documents, there is the prospect that each department may claim jurisdiction so that a fund might be subjected to the expense of double examination.

(THE LAW PROVIDES THAT THE COST OF EXAMINATION SHALL BE BORNE BY THE FUND.)

To clear up these questions, we have obtained a ruling from the Banking Department which has been concurred in by the Insurance Department. We are sending this ruling to you in the hope that it will save you unnecessary work and expense.

The pertinent portions of the ruling are as follows:

1. *If a bank holds a fund as custodian or depository and performs no other function with regard thereto, the fund should be registered with the Insurance Department.*

2. *If the bank holds the fund and performs functions in addition to those of a mere custodian or depository, the fund should, in the first instance, be registered with the Banking Department. Upon so doing, this Department will notify the Insurance Department of the filing and the trustees of the fund will be deemed to have complied with the registration requirements of both the Banking and Insurance Laws. If thereafter it is determined that the fund should have been registered with the Insurance Department, the Banking Department will make the necessary transfer of the records to the latter and the fund will be duly notified thereof. Until then, the fund will be required to deal solely with the Banking Department.*

The proper administration of union-management welfare funds and pension funds is a matter of vital concern to everyone. As consultants to more of these funds than any other organization, we have undertaken to issue memoranda covering each new development. Memoranda will be sent to all interested persons on request. Specific inquiries addressed to our Public Information Department will be answered without obligation.

November 1, 1956

Weekly News Digest

1/11/57

Please read promptly, check and pass on to next one on list

1.☐ ______ 3.☐ ______ 5.☐ ______
2.☐ ______ 4.☐ ______ 6.☐ ______

COMPANY STATEMENTS ON SICK PAY ARE SUFFICIENT PROOF: A statement by the employer that an employee is entitled to exclude a specified amount of sick pay under Section 105 (d) is sufficient "proof" for an employee to attach to his income tax return, according to Revenue Procedure 57-1. ... Although the instructions accompanying Form 1040 call for a statement "showing your computation and indicating the period or periods of absence, nature of sickness or injury, and whether hospitalized," a statement by the employer will satisfy that requirement. The "withholding" rules (see 341.5.-1) call for the employer to maintain certain records, whether he withholds or not, so such records are considered sufficient. However, the employer must assume full responsibility for the accuracy of the figure reported in the statement provided the employee, according to Revenue Procedure 57-1. All payments made directly by the employer must be included in Form W-2 whether the employer withholds or not. ... The suggested form contained in Revenue Procedure 57-1 follows: "On the 1956 withholding tax statement, Form W-2, furnished to you by this corporation, sick pay excludable under section 105(d) of the Internal Revenue Code of 1954 in the amount $__________ is shown. If you claim this exclusion on your 1956 income tax return, the Internal Revenue Service instructions pertaining to the filing thereof require you to enclose with your return a detailed computation in support of such sick pay exclusion. However, in view of the payroll records maintained by us, we are authorized under Rev. Proc. 57-1, I.R.B. 1957-2, to advise you that this

(Please turn page)

CHECK LIST OF RESEARCH REPORTS RECEIVED THIS WEEK

( ) 105.2.-49 & 50: PENSION CONTRIBUTIONS BY EMPLOYERS, MISCELLANEOUS DATA: Contains figures for 1954 and 1955, and many new companies.

(✓) 111.22.-7: HOW PENSION CREDITS CAN BE TRANSFERRED BY FUNDS. Under reciprocal agreements - system worked out by Harold Faggen Associates.

( ) 164.-3 & 4: DATA REQUIRED OF JOINTLY ADMINISTERED PENSION FUNDS. Special exhibit must be filed by self-funded plans in New York.

( ) 201.-1: PROFIT SHARING PLANS IN MAJOR LABOR MARKETS. Prepared by Bureau of Labor Statistics, U. S. Department of Labor. (Replaces 204.01.-1.)

( ) 211.2.-3 & 4: IRS REQUIREMENTS INFLUENCE VESTING RULES: Forfeitures can be substantial - examples shown. (Replacement for out-dated material.)

( ) 270.-1: INTERNAL REVENUE CODE OF 1954 - SPECIAL INDEX: Sections covering profit-sharing and stock bonus plans trusts.

( ) 324.0.-3 & 4: GEOGRAPHICAL VARIATION IN HOSPITAL COSTS MAJOR PROBLEM: Inland Steel Co. has special provision for high cost areas.

( ) 330.1.-23 & 24: ANNUAL REPORT FOR HEALTH & WELFARE FUNDS: New York state insurance department form supplements statement.

( ) 430.0.-47 through 50: NEW YORK WELFARE FUND ACT: Registration and annual report requirements. Revised with new data to bring up to date.

If the above reports are not attached - refer to the ring binder

Charles D. Spencer & Associates, Inc., 180 West Adams St., Chicago 3, Illinois

statement will satisfy the Service's instructions and that, when you file your return, you may attach this statement thereto in lieu of the detailed computation required by the Service's instructions." ... There has been some confusion over the "hospitalized on account of sickness" rule. Pay or benefits for the seven days are excluded if the employee is hospitalized during the period he is sick. If he is sick at home for seven days and then is subsequently hospitalized during the period of illness, pay for the first seven days is excluded (see 341.1.-17). An employee must file Form 1040 to claim a sick pay exclusion, according to the instructions for use of the "punch card" short form (Form 1040A).

"IRREVOCABLE ELECTION" OF SURVIVOR BENEFIT TAXABLE AS A GIFT: An "irrevocable election" by an employee of a joint and survivor benefit under a pension plan results in a taxable gift, according to Section 22.2511-1 (g) (10) of the proposed regulations covering Section 2511 of the 1954 Internal Revenue Code, published in the Jan. 3, 1957 issue of the "Federal Register". ... The text follows: "If under a pension plan (pursuant to which he has an unqualified right to an annuity) an employee has an option to take either a retirement annuity for himself alone or with a survivorship annuity payable to his wife, an irrevocable election by the employee to take the reduced annuity in order that an annuity may be paid, after the employee's death, to his wife results in a taxable gift". ... Although most of the preceding examples were formerly included in Reg. 108, Section 86.2 (a), the above example was not included in the old regulations. ... The question of whether an "irrevocable election" has been made in electing a joint and survivor benefit has been handled by some group annuity and self-funded plans by permitting the retired participants to revoke joint and survivor options, subject to terms agreeable to the insurance company or trustee. As long as the designated survivor is not granted an absolute assignment of the survivor rights it is contended that there is no "irrevocable election" by the adherents of that approach.

UNITED BISCUIT TO PARTICIPATE IN UNION PLAN: The United Biscuit Co. has made a company-wide contract with Bakery & Confectionery Workers to participate in the Union-Industry National Pension Fund. Plants in ten locations will contribute 10¢ per man hour to the fund effective Nov. 1, 1957. The benefit at age 65 based on 25 years of service will be $100 a month.

INSTITUTIONAL INVESTORS AND THE STOCK MARKET, 1953-55: Corporate pension funds are included in the staff report to the U.S. Senate Committee on Banking and Currency, released Dec. 28, 1956 (see 140.-3, 12/7 release), expected to be available from the Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C. - no price given. ... The report includes data of 30 non-insured pension funds whose holdings constitute 50% of the common stock held by all private non-insured pension funds at the end of 1954 and is designed to gather statistical information which would lay a factual foundation for consideration of the influence of institutional purchases and sales (ranging from 13 to 20% of share volume on the NYSE) upon stock market behavior since the fall of 1953.

NEWS SHORTS: Communications Workers, in its negotiations with Bell Telephone System companies is insisting on a non-contributory basis for group life insurance. ... The California State Federation of Labor is pushing proposals to increase the maximum under the unemployment compensation disability law from $40 to $55 per week, plus dependent benefits of $5 for the first and $2.50 for each additional dependent; provide retroactive payments for the waiting period; permit labor commissioner to enforce payment of health and welfare contributions under collective bargaining agreements through civil as well as criminal courts, and provide workers with complete information on deduction from wages. ... Plumbers & Steamfitters has published a set of recommendations to guide union trustees in administering health and welfare funds. It covers such points as benefit standards, administration, eligibility requirements and contributions. ... The Dorfman-Naddeo health and welfare fund hearing held by the AFL-CIO in Washington was "closed". ... Members of the U.S. Senate labor and public welfare committee are objecting to the proposed labor investigation (including health and welfare plans) by the McClellan permanent subcommittee on investigations. The committee on rules is considering the question of jurisdiction. ... The Michigan state insurance department reports that it is very much interested in the health and welfare fund situation. It is recommending passage of a bill based on the recommendations considered by the National Association of Insurance Commissioners at St. Louis in 1956.

SUTHERLAND PAPER CO. (cont.)

UPSL*

*Past service liability of both plans: 1953 - $4,619,000, 1954 - $1,946,000, 1955 - $1,985,000.

Company also contributed $64,609 in 1953, 1954 - $111,609, 1955 - $71,117, to the hourly employees' savings fund. Total pension costs: 1953 - $517,609 1954 - $421,609, 1955 - $100,117

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Pension Plan, Est. Jan. 1, 1954 for salaried employees; Non-contributory; Employer contributions as of Dec. 31:

	1953	1954	1955
FS	$ 59,000	$ 61,983	$ 74,500
PS	100,000	63,617	29,454
TOTAL	107,000	125,600	104,909

UPSL*

* Past service liability of both plans: 1953- $4,610,000, 1954 - $1,449,000, 1955 - $1,909,000

Total pension costs: 1953 - $517,609, 1954 - $421,609, 1955 - $100,117

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SWEETS CO. OF AMERICA, INC.
1515 Willow Ave., Hoboken, N.J.

Individual Insurance and Annuity Plan, Est. Dec. 26, 1942 (amended Dec. 26, 1952*) for all executive, managerial, and supervisory employees; Non-contributory; Employer contributions as of Dec. 31:

Estimated	1953	1954	1955
Annual Cost	$ 15,000	$ 15,000	$ 15,000

*Amendment for additional payments by company on salaries in excess of $20,000 per annum. Estimated gross annual cost is $9,000.

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Retirement Plan, Est. Jan. 1 1952 for all employees; Contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
TOTAL	$ 23,150	$ 26,000	$ 27,000

	1955
TOTAL	$ 33,000

Company pays 2/3 of cost. Employees become eligible after 5 years.

Additional payments to both plans provided for in amendment effective Dec. 26, 1955:

FS	$ 11,000
PS	19,000 (est.)
TOTAL	[illegible] (est.)
UPSL	110,000*

*UPSL for all plans - $110,000 in 1955, to be paid in 9 installments of $11,000

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SWIFT & CO.
Union Stock Yards, Chicago 9, Ill.

Est. Dec. 16, 1943; Non-contributory; Employer contributions as of Oct. 31:

	1952	1953
FS	$12,854,000	$14,939,000
TOTAL	14,149,076	14,718,981
UPSL	61,000,000	68,000,000

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SYLVANIA ELECTRIC PRODUCTS, INC.
1740 Broadway, New York 19, N.Y.

Annuity Plan, Est. Dec. 1, 1942 for all employees; Contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
FS			$ 2,078,863
PS	$ 262,013	$ 261,690	281,690
TOTAL	1,900,939	2,648,188	2,360,553
UPSL	2,620,136	2,190,391	100,021

	1955
FS	$ 2,855,778
PS	91,176
TOTAL	2,947,154
UPSL	100,000

Self-funded; Corporate Trustee.

Members contributed: $ 1,230,691

Past service cost being paid over 25 year period.

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SYMINGTON GOULD CORP.
2 Main St., Depew, N.Y.

Pension Plan for salaried employees; Contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
TOTAL	$ 247,687*	$ 262,528*	$ 225,104

	1955
TOTAL	$ 244,000*

* total costs

Past service costs paid.

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Group Annuity Plan, Est. June 1, 1909 for hourly employees; Non-contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
TOTAL	$ 237,687*	$ 262,528*	$ 225,104
UPSL	680,017	687,000	164,000

	1955
TOTAL	$ 244,400
UPSL	170,000

*total costs Funded by insurance company contracts.

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TALON, INC.
Meadville, Pa.

Pension Plan, Est. Dec. 31, 1946; Contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
TOTAL	$ 307,146	$ 378,626	$ 422,540

	1955
TOTAL	$ 294,547
UPSL	1,200,000

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TELAUTOGRAPH CORP.
16 W. 61st St., New York 23, N.Y.

Pension Plan, Est. Jan 1, 1946 for all employees; Non-contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
FS	$ 42,778	$ 26,803	
PS	12,200	12,200	
TOTAL	54,978	39,003	$ 23,102
UPSL	30,000	24,600	19,700

	1955
TOTAL	$ 61,287
UPSL	18,700

Past service cost being paid over a 10 year period.

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TEMCO AIRCRAFT CORP.
P.O. Box 6191, Dallas, Texas

Pension and Profit-Sharing Plans; Corporate Trustee, Est. Dec. 15, 1951. Non-contributory. Employer contributions as of Dec. 31:

	1955
FS	$ 1,205,000
TOTAL	1,205,000

Plans do not require any payments for past service credits.

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TENNESSEE CORP.
61 Broadway, New York 6, N.Y.

For all employees; Non-contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
FS	$ 729,200	$ 695,000	$ 731,600
PS	598,100	598,100	598,100
TOTAL	1,327,300	1,293,900	1,329,700
UPSL	5,070,000	4,594,000	4,107,000

	1955
FS	$ 735,600
PS	598,100
TOTAL	1,333,700
UPSL	3,600,000

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TEXAS CO.
135 E. 42nd St., New York 17, N.Y.

Pension Plan, Est. July 1, 1937; Amended 1940, 1950; For all employees; Contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
FS	$ 7,031,797	$ 9,127,010	$ 9,411,929
PS	2,020,988	1,810,660	1,270,123
TOTAL	10,054,785	10,937,670	10,680,052
UPSL	10,000,353	9,434,581	8,062,749

	1955
FS	$ 8,652,609
PS	1,261,640
TOTAL	9,914,250
UPSL	8,290,978

Past service cost is being paid over a 20 year period starting 1950.

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Incentive Compensation Plan; Est. 1950 for executive and key employees; Payments mature at retirement or death; Employer contributions as of Dec. 31

	1952	1953
Cost of shares	$ 4,850,270	$ 5,374,318
Past reserve	861,902	1,964,687
Contribution to reserve of current year	1,482,459	1,692,290

	1954	1955
Cost of shares	$ 8,162,796	$10,273,041
Past reserve	1,177,709	1,434,712
Contribution to reserve of current year	2,155,855	2,690,023

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Employees' Savings Plan; Est. July 1, 1952 for all employees; Contributory; Employer contributions as of Dec. 31:

	1953	1954	1955
TOTAL	$ 1,300,562	$ 3,515,909	$ 3,692,231

Foreign subsidiary

	1953	1954	1955
TOTAL	$ 101,477	$ 106,057	$ 117,670

Employees may withdraw savings after 5 years, though most are expected to keep them in fund until retirement.

Corporate Trustee: Hanover Bank, New York 15, N.Y.

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TEXAS GULF SULPHUR CO.
75 E. 45th St., New York 17, N.Y.

Est. Aug. 1934 (supplemented Jan. 1949). Employer contributions as of Dec. 31:

	1952	1953	1954
FS	$ 475,000	$ 575,000	$ 675,000
PS			125,000
TOTAL			1,200,000
UPSL	250,000*	100,000*	

* from supplementary plan only; original all paid.

	1955
FS	$ 1,200,000
PS	none
TOTAL	1,200,000

Plan fully funded for past service Dec. 31, 1954

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TEXAS INSTRUMENTS INC.
6000 Lemmon Ave., Dallas, Texas

Pension Plan for all employees; Non-contributory; Employer contributions as of Dec. 31:

	1953	1954	1955
FS	$ 251,068		
PS	23,547		
TOTAL	274,615	$ 136,807	$ 341,560
UPSL	140,000	116,000	111,000

Past service cost to be funded over the next seven years. Also a profit-sharing trust - no figures given.

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TEXAS PACIFIC COAL & OIL CO.
Fort Worth National Bank Bldg., Ft. Worth, Tex.

Group permanent plan for all employees; Contributory; Employer and employee contributions as of Dec. 31:

	1952	1953	1954
FS	$ 103,600**	147,589**	184,083
PS		39,966	39,965
TOTAL		187,555	224,048

	1955
FS	$ 188,071
PS	40,000
TOTAL	228,071
UPSL	180,000

* Approximately 40.93% of this paid by participants

** Approximately 49.23% of this was paid by participants.

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TEXTRON AMERICAN, INC.
50 S. Main St., Providence, R.I.

Pension Plan; Corporate Trustee; Amended Feb. 24, 1955; For salaried employees; Non-contributory; Employer contributions as of Jan. 1:

(CONTINUED)

TEXTRON AMERICAN, INC. (cont.)

	1952	1955	1956*
TOTAL		$ 248,768	
UPSL	$ 100,000	1,000,000	$ 1,000,000

*The plan was over-funded and no contribution was required by the company or its subsidiaries for the year.

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Profit-Sharing Plan, Est. 1951 for all employees; Non-contributory; Employer contributions as of Dec. 31:

	1955	1956
Company plan:		
TOTAL		$ 542,536
Separate division plans:		
TOTAL	$ 162,900	107,954
TOTAL	122,940*	779,090*

*Both plans

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THATCHER GLASS MFG. CO., INC.
1901 Grand Central Ave., Elmira, N.Y.
Est. Jan. 1, 1951 for salaried employees only; Non-contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
FS	$ 109,286	$ 122,653	$ 132,669
PS	80,000	63,159	none
TOTAL	189,286	180,770	132,669
UPSL	758,710	667,887	510,650

	1955
FS	$ 40,410
PS	none
TOTAL	40,410
UPSL	441,000

Past service cost to be paid over a period of not more than 28 years from 1953.

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Non-contributory retirement plan for hourly-rate employees; Effective Jan. 1, 1955.

	1955
FS	$ 46,891
PS	40,000
TOTAL	90,090
UPSL	895,780 Corporate Trustee

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THERMOID CO.
Whitehead Road, Trenton, N.J.
Est. 1950 for salaried employees; Non-contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
FS	$ 37,[illegible]	$ 61,261	$ 59,482
PS	21,627	22,097	32,717
TOTAL	58,726	69,160	92,199
UPSL	173,000	150,000	129,000

	1955
FS	$ 113,[illegible]
PS	90,241
TOTAL	183,283
UPSL	97,000

Also profit-sharing plan, no details.

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THIOKOL CORP.
780 N. Clinton Ave., Trenton, N.J.
Est. Oct. 1, 1951; Contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
FS	$ 26,140	$ 30,701	$ 69,282
PS	10,460	8,400	9,819
TOTAL	46,900	50,111	79,121
UPSL	40,625	60,170	60,011

	1955
FS	$ 79,772
PS	9,405
TOTAL	88,177
UPSL	57,794

Past service cost to be paid over an 8 year period from 1953.

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THOMPSON PRODUCTS, INC.
23555 Euclid Ave., Cleveland 17, Ohio
Amended March 1, 1949. Employer contributions as of year ending:

	1952	1953
FS	$ 651,900	$ 1,063,790

	1952	1953
TOTAL	$ 1,169,000	$ 1,185,768
UPSL		1,190,764

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TIDE WATER ASSOCIATED OIL CO.
17 Battery Place, New York 4, N.Y.
Pension Plan, Est. July 1, 1940 for all employees; Contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
FS	$ 2,178,597	$ 2,400,000	$ 2,400,000
PS	941,017	4,400,000	1,100,000
TOTAL	3,119,614	6,800,000	3,500,000
UPSL	10,456,000	17,900,000	25,700,000
TA**		20,241,000	26,170,000

	1955
FS	$ 2,427,000
PS	1,305,000
TOTAL	3,732,000
UPSL	21,690,000
TA*	29,407,000

* Total Assets

Past service cost to be paid over a period of 30 years beginning July 1, 1940. Effective July 1, 1954 [illegible] employees in collective bargaining unit elected to join the plan, increasing past service liability by $8,000,000 and current service by $539,000 annually (approx.)

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TILO ROOFING CO., INC.
347 Longbrook Ave., Stratford, Conn.
Insurance and Annuity Plan: Est. 1941; Contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
TOTAL	$ 37,000	$ 37,000	$ 35,000

	1955
TOTAL	$ 47,000 (approx.)

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TIMKEN ROLLER BEARING CO.
1835 Dueber Ave., S.W. Canton, Ohio
Pension Plan. New pension plan in 1955. Employer contributions as of Dec. 31:
Plan under Steelworkers-CIO contract:

	1952	1953	1954
TOTAL	$ 1,[illegible],000	$ 1,600,000	$ 1,890,000

	1955
TOTAL	$ 4,495,000

Plan covering other employees:

	1952	1953	1954
PS		$ 600,000	
TOTAL	$ 402,552		$ 1,100,653
UPSL	875,000	879,301	650,000

	1955
TOTAL	$ 4,021,574

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TISHMAN REALTY & CONSTRUCTION CO., INC.
666 Park Ave., New York, N.Y.
Pension Plan, Est. July 1, 1950 (amended July 1, 1953); For all employees; Non-contributory; Employer contributions as of Sept. 30:

	1952	1953	1954
TOTAL	$ 74,343	$ 56,394	$ 70,007

	1955
TOTAL	$ 88,147

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TRANSAMERICA CORPORATION
Montgomery St. at Columbus Ave., San Francisco 11, Calif.
Annuity Retirement plan for salaried employees. Contributory, Yr. ends Dec. 31

1952 Annual Cost	1952 Past Serv. Liability	1953 Annual Cost	1953 Past Serv. Liability
Transamerica Corp. (registrant)			
$ 14,118	$ 48,966	$ 13,231	$ 39,587
Capital Co.			
99,766	116,461	90,789	122,524
Allied Building Credits, Inc.			
30,904	81,869	29,446	82,865
Pacific Nat'l. Fire Ins. Co.			
$ 35,946	$ 82,741	$ 51,595	$ 70,731
Premier Insurance Co.			
14,160	15,168	17,313	14,010
Occidental Life Ins. Co., Cal.			
113,212	272,797	151,537	249,662
Domestic Bank subsidiaries (combined)			
619,020	965,013	[illegible]	642,650

1955 Annual Cost	1955 Past Serv. Liability
Transamerica Corp. (registrant)	
$ 21,368	$ 32,705
Capital Co.	
56,902	93,903
Allied Building Credits, Inc.	
59,635	58,459
Premier Insurance Co.	
91,516*	79,168*
Occidental Life Ins. Co., Cal.	
251,765	336,207
Domestic Bank subsidiaries (combined)	
1,193,937	674,950

* Other fire and accident insurance companies.

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TRANS EMPIRE OILS LTD.
627 8th Ave., West Calgary, Alberta, Canada
Pension Plan for all employees; Contributory; Employer contributions as of Dec. 31:

	1953	1954*	1955*
TOTAL	$ 5,708	$ 12,000	$ 12,000

* estimated Funded by insurance company contracts.

Individuals contribute 6% of their salaries - company contributes a similar amount.

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TRANS-LUX CORP.
1270 Avenue of the Americas, New York, N.Y.
Individual Insurance Plan, Est. Jan. 1, 1945 for all employees; Non-contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
Parent	$ 12,167	$ 10,337	$ 9,941
TOTAL *	26,906	25,552	27,764

	1955
Parent	$ 8,992
TOTAL *	29,020

* Including subsidiaries.
Corporate trustee is Chemical Bank & Trust Co.

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TRANSUE & WILLIAMS STEEL FORGING CORP.
562 W. Ely St., Alliance, Ohio
Est. Dec. 1, 1950 for salaried employees; Contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
TOTAL	$ 101,262	$ 95,744	$ 106,953

	1955
TOTAL	$ 210,000
UPSL	1,012,000

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TUNG-SOL ELECTRIC INC.
95 Eighth Ave., Newark 4, N.J.
Pension Plan and Individual Insurance Plan; Est. Nov. 16, 1942 for salaried employees; Contributory; Employer contributions as of Dec. 31:

	1952	1953
TOTAL	$ 107,255	$ 99,170

Company pays 75% of the annual cost.

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Est. Nov. 16, 1952 for all employees; Non-contributory; Employer contributions as of Dec. 31:

	1952	1953	1954
FS	$ 71,000	$ 100,528	
PS	97,000	99,647	
TOTAL	170,000	200,175	$ 311,033
UPSL	970,000	922,000	843,940

	1955
TOTAL	$ 400,932
UPSL	763,230

Past service cost to be paid over a period of 11 years.

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(CONTINUED)

RESEARCH REPORTS
— Employee Benefit Plan Review

HOW PENSION CREDITS CAN BE TRANSFERRED BY FUNDS

Under Reciprocal Agreements-System Worked Out By Harold Faggen Associates

Pension funds based on the collective bargaining agreements of local unions face the growing problem of safeguarding the rights of members who transfer to the jurisdiction of another local union by moving to another area, changing their craft or their industry. In transferring, workers generally lose their pension credits in the original fund and must start anew. Older workers are hard hit by such transfers since they usually cannot accumulate sufficient credits in the new fund to become eligible for its benefits.

A number of funds which retain Harold Faggen Associates, New York City, as actuaries and consultants have asked the firm to work on transfer problems. The goal is the maintenance of earned pension credits when a worker moves from the jurisdiction of the collective bargaining agreement of one local union to the contract jurisdiction of other local unions.

Plans Worked Out

Harold Faggen Associates has developed solutions for local unions in a few large industries and the firm is working on similar problems in other industries. The procedure followed is based on actuarial studies of each specific situation, and is acceptable in principle to the Internal Revenue Service, which must approve the agreements as amendments to existing pension plans.

The essence of the solution is for two or more pension funds to enter into reciprocal agreements under which a member transferring from one fund to another maintains his earned pension credits in the original fund. Before the details of a reciprocal agreement can be worked out, it is necessary to determine actuarially whether such reciprocity will harm any of the participating funds.

Costs Are Studied

Each fund that wishes to participate in a reciprocal agreement must be studied carefully to make certain it can afford the additional costs of maintaining the earned credits of a covered member who transfers to a reciprocating fund. (All funds have termination rules which are a source of actuarial gains. As terminations are reduced, the fund's gains become smaller).

Reciprocal agreements have been established along the following lines: Fund A and Fund B amend their pension plans to provide for the maintenance of the pension credits of a member who, after earning a required minimum number of credits, transfers from one fund to the other. Upon transferring from Fund A to Fund B, he begins accumulating another set of credits. He will be eligible to apply for retirement if he earns a minimum number of credits in Fund B.

Both Funda Pay Pension

If he fulfills these two sets of requirements, the member at retirement age applies for a partial pension from Fund A and another partial pension from Fund B. Each fund is responsible under its rules of eligibility for a partial pension, based on the credits earned by the member applying for retirement from both funds.

For example, Fund A provides for a pension of $50 a month to a member who has 15 years of earned credits and Fund B pays a pension of $40 a month to a member with at least 10 years of earned credits. Suppose a member had 10 years of earned credits with Fund A before he transferred to Fund B, and he earned 5 years of credits with Fund B before applying for retirement at age 65.

How Benefit Is Determined

Fund A pays the member 10/15ths of its normal $50 pension, or $33.67 a month. Fund B pays the member 5/15ths of its normal $40 pension, or $13.33 a month. The total amount of his two partial pensions from both funds therefore amounts to $47 a month.

A similar formula can be applied to funds with varying rates of contributions, pension benefits and eligibility rules. The important point is that within the context of its own rules, a fund is liable only for a partial pension to a transferring member and that partial pension must not impair the fund's financial stability.

Collectively bargained pensions stem from recognition of need for supplementary income for retired workers. The trend in some industries is the development of a national system of reciprocal agreements which will guarantee the worker that his union pension (which may come from many funds) will belong to him as does his social security pension, Harold Faggen Associates point out.

DATA REQUIRED OF JOINTLY ADMINISTERED PENSION FUNDS
Special Exhibit Must Be Filed By Self-Funded Plans In New York.

PENSION OR OTHER RETIREMENT BENEFITS

PART I

Showing as of End of Annual Statement Year All Pensions or Retirement Benefits
Currently Payable, by the Fund, to Retired Members

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
MALE LIVES				FEMALE LIVES			
Attained Age	No. of Lives	Payable Monthly	For Insurance Dept. Use Only	Attained Age	No. of Lives	Payable Monthly	For Insurance Dept. Use Only
65				65			
66				66			
67				67			
68				68			
69				69			
70				70			
71				71			
72				72			
73				73			
74				74			
75				75			
76				76			
77				77			
78				78			
79				79			
80				80			
Others (Itemize):				Others (Itemize):			

In addition to filing annual statements by March 1 (see 430.0.-47), a special supplement has to be filed not later than May 1 by jointly administered employee welfare funds in New York "which grant pension or retirement benefits not covered by an insurance company."

The above exhibit shows benefits currently payable to retired members while Part 2 of the exhibit (see next page) calls for the age distribution of non-retired members age 55 and over.

There is also a "general interrogatory" covering dates when contributions and benefits started and aggregate totals: the number and average age of those retiring in each of the last five years; the number and average age for the same period of suspension or discontinuance of benefits as a result of reemployment. Other reasons for suspension of payments are asked. The name of the fund's actuary is requested as well as the last actuarial valuation.

(CONTINUED)

DATA REQUIRED OF JOINTLY ADMINISTERED PENSION FUNDS

Special Exhibit Must Be Filed By Self-Funded Plans In New York (Cont.)

PENSION OR OTHER RETIREMENT BENEFITS

PART 2

Showing age distribution of non-retired members as of end of Annual Statement year and, for each specified age, the aggregate amount of monthly pensions that will be payable at normal retirement date, assuming completion of all eligibility requirements on that date and based upon current length of service in the industry or membership in the employee welfare fund.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
MALE LIVES					FEMALE LIVES				
Attained Age	No. of Lives	Payable Monthly	Lump Sums Payable*	For Insurance Dept. Use Only	Attained Age	No. of Lives	Payable Monthly	Lump Sums Payable	For Insurance Dept. Use Only
70 & Over		$	$		70 & Over		$	$	
69					69				
68					68				
67					67				
66					66				
65					65				
64					64				
63					63				
62					62				
61					61				
60					60				
59					59				
58					58				
57					57				
56					56				
55					55				
Under 55		XXXX	XXXX	XXXX	Under 55		XXXX	XXXX	XXXX

* Include all single payments to be granted in lieu of a pension or as the plan's retirement benefit.

Special Report to the Profit Sharing Research Foundation
December, 1956

Number of establishments 1/ studied in 17 major labor markets and number reporting some type of profit sharing plans 2/, winter 1955-1956.

Area	Minimum Size Establishment	No. of establishments studied	Establishments studied that reported some type of profit sharing plan	% of Total
Northeast:				
Newark-Jersey City	3/	271	12	4.4%
New York City	3/	544	45	8.3
Philadelphia	3/	322	32	9.9
Providence	51	128	7	5.5
South:				
Atlanta	51	191	21	11.0
Dallas	51	174	20	11.5
Memphis	51	134	16	11.9
New Orleans	51	154	10	6.5
Middle West:				
Chicago	3/	427	64	15.0
Detroit	3/	254	27	10.6
Milwaukee	51	177	19	10.7
Minneapolis-St. Paul	51	234	21	8.9
St. Louis	3/	224	16	7.1
Far West:				
Denver	51	139	8	5.7
Los Angeles	3/	304	31	10.2
Portland	51	145	15	10.4
San Francisco-Oakland	3/	248	11	4.4
Total, 17 areas		4070	375	9.2

1/ All outlets (within the area) of companies in such industries as trade, finance, auto repair service, and motion picture theaters are considered as 1 establishment.

2/ Formal plans (1) having established formulas for computing profit shares to be distributed among employees; (2) under which formulas were communicated to employees in advance of the determination of profits; and (3) under which eligibility was extended to a majority of the office or plant workers.

3/ Minimum size establishment (employmentwise) was 51 workers in wholesale trade, finance, and services industry groups; and 101 in the manufacturing, public utilities, and retail trade groups.

Comment by J. J. Jehring, director Profit-Sharing Research Foundation, 1718 Sherman Ave., Evanston, Ill.: Weighted in favor of larger industries and businesses; eliminates small companies. (Also see 101.-3 etc. for qualified profit-sharing plan data).

Full Vesting Required

In event of termination of the plan, discontinuance of contributions by a formal action of the employer, or if the Internal Revenue Service deems that a suspension of contributions is in effect a discontinuance of contributions, the plan must provide that all amounts in the employees' accounts become fully vested. (see 271.-17, etc.)

GENERALLY STARTS EARLY

Granting profit-sharing plan participants a vested interest in the employer's contributions generally starts at a fairly early stage under profit-sharing plans. There are two main reasons:

1. In a profit-sharing plan installed primarily for its incentive value early vesting is in accord with such an objective.

2. Although published rulings have not been specific on the point, Internal Revenue Service reviewers tend to favor fairly early vesting under plans where the forfeitures are allocated to the remaining participants as a precaution against discrimination. This is especially true under smaller firm plans (see Rev. Rul. 55-186, Page 217-17 etc.).

Forfeitures may represent a substantial amount in relation to amounts contributed to the plan and investment earnings.

Examples of Value

Although the possibility of discrimination in regard to forfeitures under the Jewel Tea Co. plan is practically nonexistent, since it is a large company, its experience does indicate the potential value of forfeitures reallocated to the remaining participants.

In the August, 1955 issue of the EMPLOYEE BENEFIT PLAN REVIEW magazine details from the Jewel plan operation for 1954 were reported. It has a graded vesting over a 20 year period. The average member who had participated in the plan since 1938 (effective date) through 1954 had $9,553 credited to his account, of which $2,663 represented the participant's contributions, $3,663 represented the company's contributions and $3,817 represented investment earnings and forfeitures which are allocated upon a basis of the amount in the remaining participants' accounts. (Under plans which have only a few participants the Internal Revenue Service is generally "not too happy" about allocation of forfeitures on the basis of the amounts in the accounts.)

As can be seen by the Jewel experience forfeitures (although they are not segregated from investment earnings) can represent a substantial percentage of the amounts credited long-term employees.

Another Example

Figures which indicate the potential value of forfeitures were also given in the U.S. Tax Court decision in Ryan School Retirement Fund et al. v. Commissioner (No. 49445, 24 TC-, No. 17). Vesting under the plan was 20% after two years of participation plus 10% each additional year or 100% after 10 years. Credits were 100% vested in event of severance after age 55 and 15 years of service under an alternate rule.

Forfeitures were allocated among the remaining participants (details not given). If the plan was terminated, the accounts of all participants became 100% vested.

By the end of seven years four officers and a supervisory employee (five in all) which had been allocated 8.4% of the original contribution by the employer were entitled to 73% of the trust's assets totaling $71,738 ($72,180 in employer contributions plus $18,632 in interest earnings and minus $19,075 in severance benefits paid). Including the severance benefits the five key employees were entitled to 58% of the total.

The court held the results were not discriminatory but the main point for quoting the case is to indicate that forfeitures can be substantial in the operation of a plan.

Schlumberger Well Surveying Corporation: Participant's shares increased by 8.51% during 1955 as a result of forfeitures by terminated employees of 0.17%, realized investment income of 4.53%, and income from the annual valuation of securities amounting to 3.81%. The forfeitures were $13,449.21 compared with employer contributions of $1,998,558.34.

The Greist Manufacturing Company: Credits and income arising from the fund assets of Dec. 31, 1954 amounted to $110,573.32 including relinquishments of $26,968.55. The employer contribution for the year 1955 was $198,143.90.

American Exporter Publications: For the fiscal year ended Nov. 30, 1955 seven former members received as their accumulated share in the plan a total of $19,037.87. Forfeitures of four of the seven participants totaled $1,224.24.

HOW POINT IS HANDLED

The first example covers "contributions" and the other three "termination":

Chicago Rivet & Machine Co.: "In event the company shall fail to make contributions hereunder for two consecutive years, then notwithstanding any provisions to the contrary in this paragraph, that portion of the interest of each beneficiary, which at that time has not vested, shall forthwith vest in such beneficiary."

(CONTINUED)

Champion Paper & Fibre Co.: "Upon termination of the plan the value of the undivided proportionate interest of each person having an interest in the trust fund shall be determined as of the date of discontinuance. The interest thus determined shall then be segregated and such segregated interests shall be set aside by the trustee for the special account of each member or beneficiary. Thereafter, distribution shall be made as provided heretofore."

Polaroid Corporation, Cambridge, Mass.: "Upon such termination of the plan and trust, after payment of all expenses and proportional adjustment of such accounts to reflect such expenses, fund losses or profits and reallocations to the date of termination, each participating employee, each retired participating employee, each former participating employee, and each beneficiary of a deceased participating employee shall be entitled to receive any amounts then credited to his account in the trust fund."

Purex Corporation, Ltd.: "Should Purex decide to terminate its participation in the plan, the fund will be continued until all obligations have been discharged by the trustee. In the event of such termination, forfeiture provisions for members terminating their employment with Purex will no longer be operative."

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ONE WAY RULE

In considering the question of "discrimination", Section 401 (a), I.R.C. is precise on the point that it applies only in cases of discrimination in favor of the officers, shareholders, etc. Although it might be held that the "exclusive benefit of his employees" rule implies equal treatment to all, the tendency of the IRS has been to "dote" on discrimination.

Thus, the negative aspects created by Revenue Rulings 55-186, C.B. 1955-1, 39 and 56-596, I.R.B. 1956, I.R.B. 1956-47, 14 (see 271.-17) are not recognized, especially in event the IRS deems that a suspension of contributions to a profit-sharing plan is a discontinuance, although no formal action has been taken on discontinuance by the employer.

Assume that the IRS deems that there has been a discontinuance of contributions and the employer intends to continue the plan in effect. The IRS has three additional alternatives:

1. To consider the plan still qualified.
2. To disqualify the plan retroactively to the effective date under the rule that the plan "from its inception was not a bona fide plan" (Reg. Section 1.401-1 (b)(2).
3. To disqualify the plan as of the taxable year involved.

Tax Upon Distribution

It must be kept in mind that tax consequences of distributions received by participants stem from status of the plan itself.

Consider what might happen if a plan provides for vesting at the rate of 10% a year and then contributions are deemed to have been discontinued.

Jones, who has been credited with $400 but who has a vested interest of $80, now has a vested interest of $400. Smith, who has received approximately the same amount per year of participation has $1,800 in his account and 80% is vested before discontinuance of contributions, and 100% afterwards.

Jones, as a short-term employee, is more apt to leave the firm than Smith, a long-term employee. So, assume Jones does leave. If no action is taken as to the qualification of the plan before Jones leaves he receives $400 subject to tax as a capital gain.

Possible Tax Consequences

Smith, who stays, faces several possible tax consequences:

1. If the plan continues to be qualified, there would be no particular adverse problem. His $1,800 would be 100% vested and presumably if contributions are resumed the new contributions would be vested on the original 10% a year rate basis.

2. If the IRS retroactively disqualifies the plan his entire $1,800 probably would be considered taxable income. If he keeps his job but may and does withdraw his contributions because disqualification of the plan is imminent, it probably would still be considered taxable income.

3. If the plan is disqualified as of the taxable year involved, his credits prior to the end of the previous year would not be considered taxable income but interest earnings during the subsequent period while the trust is not qualified would be taxable income. Furthermore, regardless of when and under what circumstances he might subsequently receive the corpus it apparently would be considered taxable because the capital gain and annuity provisions apply only to amounts received while the trust is qualified under Section 401 (a) and exempt from tax under Section 501 (a).

It is possible but not probable that some relief may be gained under Reg. Section 1.402 (b)-1 which covers the treatment of a beneficiary of a trust not exempt under section 501 (a).

ARRANGEMENT OF 1954 CODE INFORMATION

Only information regarding the 1954 Internal Revenue Code which applies solely or mainly to profit-sharing and stock bonus plans will be filed in the Profit-Sharing Section in order to eliminate needless duplication. Thus, in addition to checking Pages 270.-1 etc., through 272.2.-1 etc., as identified in the following chart; you should also check Pages 117.-1 and Pages 171.00.-1 through 171.09.-1 etc., and Pages 173.1.-1 etc., in the Pension Section, as identified below:

Starts on Page	INFORMATION FILED IN PENSION SECTION WHICH MAY BE APPLICABLE TO PROFIT-SHARING AND STOCK BONUS PLANS
171.00.-1	General
171.01.-1	Qualification of Plan
171.02.-1	Deductions by Employers
171.03.-1	Administration
171.04.-1	Investments
171.05.-1	Tax Status of Benefits (General)
171.06.-1	Retirement Income
171.07.-1	Death Benefits (Income Tax)
171.08.-1	Death Benefits (Estate Tax)
171.09.-1	Severance Benefits (Other Than For Retirement or Death and Disability, When Section 105 Is Applicable)
117.-1	Total Disability Benefits (When Section 105 Is Applicable)
173.1.-1	Social Security-Integration
	SPECIAL PROFIT-SHARING AND STOCK BONUS PLAN INFORMATION
270.-1	General
271.-1	Qualification of Plans; Investments As They Affect Qualification
272.1.-1	Deduction of Employer's Contributions
272.2.-1	Benefit Payments

Employee Benefit Plan Review ● RESEARCH REPORTS

GEOGRAPHICAL VARIATION IN HOSPITAL COSTS MAJOR PROBLEM

Inland Steel Co. Has Special Provision For High Cost Areas

To meet the problem of the wide variations in hospital rates in different parts of the country, and provide higher benefits where they are needed without increasing them in the lower cost territories, Inland Steel Co. in its 1956 contract with Steelworkers included a special provision for "high cost areas."

The regular hospital room and board benefit is $13 a day for 120 days, with $10 as indemnity and $3 reimbursement for employees and the entire amount on a reimbursement basis for dependents. However, for the high cost areas the maximum is made $18, on a reimbursement basis.

These areas are specifically defined as including the entire states of California, Connecticut, Massachusetts, Nevada, New Jersey, Oregon, Rhode Island and Washington; District of Columbia - city of Washington and adjacent areas in Maryland and Virginia, Illinois - Chicago area. Michigan - Detroit area, Minnesota - Minneapolis and St. Paul area; New York-New York City, Buffalo and Rochester areas; Ohio-Akron, Cleveland and Cincinnati areas; Pennsylvania-Philadelphia and Pittsburgh areas; Wisconsin-Milwaukee area. In the case of city areas, the counties affected are listed.

Some elasticity is also given on hospital extras by a coinsurance provision, similar to that found in many plans, which allows $260 plus 75% of excess charges incurred within the 120-day period.

How Area Costs Vary

The existence of cost differentials for hospital care in the various geographical areas has long been recognized, and is confirmed by the figures on hospital rates compiled by the American Hospital Association, with the spread as between the higher and lower cost areas probably increasing rather than decreasing.

In a general way the highest hospitalization costs are to be found in the Pacific Coast states, although practically all of the big city areas also belong in that category, and the lowest in the southeastern states.

Emil E. Brill, now senior vice-president of the General Americal Life Insurance Co., in speaking at the 1956 annual meeting of the National Conference of Health & Welfare Funds, Administrators & Trustees, primarily in regard to group major medical coverage, said that the cost of benefits, with hospitalization always the biggest factor, is about two-thirds of the national average in the south, one and a third in the west, five-sixths in the midwest and about the same as the national average in the east.

He pointed out further that in certain cities costs are materially higher than the average for the geographical areas. In Detroit and vicinity, for example, they are 1-2/3 times the midwest average and for most of the other important Michigan cities 1-1/3.

Virtually the same figures were cited by Charles N. Walker, associate actuary of the Lincoln National Life Insurance Co., in a recent address, and they also correspond quite closely with the findings in a survey made by the Prudential Insurance Co., showing that if the net claim cost was $3 for the country as a whole, it was $3 for the east, $2.50 for the midwest, $2 for the south and $4 for the west. Its experience indicates that the danger areas are metropolitan New York, Cook County, Ill. (Chicago area), and the entire state of California. Both of these estimates were made primarily in connection with major medical, but also apply to hospitalization costs generally.

Problem of Vital Importance

With the steady and continued increase in hospital costs in all areas, the problem has become of even more vital importance for both employers and insurers.

The insurance companies, long cognizant of the existence of the problem, have come to realize the necessity for "doing something about it." The New York Life Insurance Co. is now using as a basis for premium rates seven different area classifications, which it defines in terms of the average hospital semi-private room and board rate. The levels of premiums in these seven areas vary from 24% on one side to 24% on the other side of those for the 4th area, which it regards as closest to the median level.

Mr. Walker declares that the "obvious answer to geographical variations is a straightforward variation in premium rates; that is, using three or four or five different premium scales for different parts of the country. Another method might be to use benefit modifications, either with or without premium variations."

* * * * * * *

Allowance for Private Room

Another point to which the variation in hospital costs applies is the allowance for private room where the regular benefits are on a semi-private basis. In one recent negotiated plan, the private room allowance was listed as $12 a day. The employer contends that the rule is that the difference between the cost of semi-private and private room is paid by the employee, but not more than $12 is allowed for the semi-private. The union interprets the clause to mean that the participant is allowed up to $12 a day against a private room in any case.

Inasmuch as, theoretically at least, the private room may be below $12 in some low cost areas, the variance in interpretations may make a material difference.

SUMMARY OF OPERATIONS

1. Contributions from employers $ ______
2. Contributions from employee-members ______
3. Interest, dividends and real estate net income ______
4. Profit on disposal of investments ______
5. Increase by adjustment in asset values of investments ______
6. Dividends and experience rating refunds from insurance companies in connection with member benefits ______

Other income:

7. ______
8. ______
9. ______
10. Total $ ______

DEDUCT:

11. Premiums and annuity considerations to insurance companies for member benefits $ ______
12. Benefits directly provided to members ______
13. General expenses ______
14. Loss on disposal of investments ______
15. Decrease by adjustment in asset values of investments ______

Other:

16. ______
17. ______
18. ______
19. Total (Lines 11-18 Incl.) $ ______
20. Net Increase or decrease before reserves (Line 10 less Line 19) $ ______
21. Increase or decrease in reserves for benefits not insured ______
22. Net increase or decrease after reserves (Line 20 plus or minus Line 21) $ ______

UNASSIGNED FUNDS ACCOUNT

23. Unassigned Funds at beginning of year $ ______
24. Net increase or decrease from Item 22 above ______

Other charges or credits to Unassigned Funds (itemize):

25. ______
26. ______
27. ______
28. Unassigned Funds at end of year $ ______

Jointly administered health and welfare plans in New York state must file two copies of an "annual report" based on information included in a 20 page "annual statement" (see 430.0.-47). In addition to the copies filed with the state insurance department it is expected that the report will be distributed to participating employers and perhaps to employees. Besides a condensed statement of assets, liabilities and unassigned forms, there is a summary of operations (see above) and a report on experience under insurance contracts (see next page).

(Continued)

ANNUAL REPORT FOR HEALTH & WELFARE FUNDS (CONT.)
New York State Insurance Department Form Supplements Statement.

Experience Under Insurance Contracts
(Based on Information Obtained From Insurance Companies)

TYPE OF COVERAGE	(1) Policy Year Ending	(2) Premiums and Annuity Considerations	PERCENT OF COL. 2 (3) Dividends and Experience Rating Refunds	(4) Claims Incurred	(5) Commission	(6) Allowances	(7) Total (Cols. 3-6 incl.)
			%	%	%	%	%
1. Life		$					
2. Accidental death and dismemberment							
3. Cash Disability							
4. Major Medical							
5. Medical							
6. Surgical							
7. Hospital							
8.							
9.							
10.							
11. Pension or Retirement	XXXX			XXX			

Note. The foregoing exhibit is on a policy year basis and normally will not agree with amounts on Page 4.

Benefits Directly Provided to Members—Current Year

TYPE OF BENEFIT	Benefit Payments
1. Death	$
2. Cash Disability	
3. Hospital	
4. Surgical	
5. Medical	
6. Unemployment	
7. Vacation	
8.	
9.	
10.	
11.	
12. Pension or Retirement	
13. Total (per Line 12, Page 4)	$

NEW YORK WELFARE FUND ACT
Registration And Annual Report Requirements.

If the bank holds the fund and performs functions in addition to those of a mere custodian or depository, the fund should, in the first instance, be registered with the Banking Department. Upon so doing, this Department will notify the Insurance Department of the filing and the trustees of the fund will be deemed to have complied with the registration requirements of both the Banking and Insurance Laws. If thereafter it is determined that the fund should have been registered with the Insurance Department, the Banking Department will make the necessary transfer of the records to the latter and the fund will be duly notified thereof. Until then, the fund will be required to deal solely with the Banking Department.

****

WHEN DOES A FUND REGISTER?

Funds in existence on Sept. 1, 1956 were supposed to have filed their registrations by Nov. 30, 1956. Funds created after Sept. 1, 1956 must register within three months.

The Welfare Fund Bureau, State of New York Insurance Department, 61 Broadway, New York N.Y. is headed by Murray Isaacs as Director.

The Employee Welfare Fund Division, State of New York Banking Department, 270 Broadway, New York 7, N.Y. is headed by Edward Feldman, Special Deputy Superintendent of Banking.

Between the two organizations all unions, known existing funds and banks were notified. The banking department notified around 2,700 funds which banks in the state service. The funds were requested to return a card form if they did not come under the act, around 1,800 returned such cards. Early estimates indicate that about 125 funds in existence on Sept. 1, 1956 will be supervised by the banking department.

The insurance department sent notices to about 8,000 local unions. Early returns indicate that approximately 900 are registered with the insurance department.

****

INFORMATION FILED

The banking and insurance department registration forms are identical. A notarized registration statement must be executed by two members of the board of individual trustees, pension board, committee or other similar body. If the board or committee is composed of both employer and labor representatives, the registration statement must be signed by one from each group.

Information required in the registration statement included:

1. Name of fund, year established, address, and telephone number.
2. Names and addresses of trustees, pension board or committee members designated by employers, labor organizations or employees and "other" members.
3. Officer of fund to whom communications should be directed.
4. Participating labor organizations. (A labor organization which is a party to, or has participated in negotiations which have resulted in, an agreement or agreements relating to or affecting the plan or fund.)
5. Affiliated or associated welfare funds. (An "employee welfare fund" which provides employee benefits for the same or substantially the same group of employees, or for the employees of the same or a substantially similar group of participating employers, or which is administered by the same, or substantially the same, board of individual trustees, pension board, committee or other similar body.)
6. Number of participating employers.
7. Approximate number of employees as in New York state and elsewhere (segregated).
8. Benefits. (Space is provided to check the following types of benefits: Death, disability, hospitalization, surgical, medical, unemployment, vacation, pension or retirement, and "others".)
9. Insurance companies, if any, and types of benefits included in policies.
10. Insurance broker or agent, consultant and/or actuary and address.
11. Bank or Trust Company, if any, appointed as trustee or agent, and address.

Documents Required

The following documents had to be filed with the registration statement:

a. Plan as amended to date.
b. Trust indenture as amended to date.
c. Any separate trust indenture or other instrument appointing bank or trust company to act as trustee or agent.
d. Collective bargaining agreements, or the provision or provisions thereof, relating to the plan or fund.
e. Any booklet or other written material descriptive of the plan or fund that is given or made available to participating employees.
f. Latest financial statement or accountant's report.

(CONTINUED)

Annual Statements

Two completed annual statements and two completed annual reports must be filed not later than March 1 of each year with the New York State Insurance Department, Welfare Fund Bureau, 61 Broadway, New York 6, N. Y.

The annual statement form based on 1956 operations includes:

Assets: Real estate, encumbrances, reserves for depreciation, mortgage loans, bonds; stocks; cash in bank and office, contributions from employers due and unpaid, total and amounts more than two months past due, same for employee members, premiums and annuity payments paid in advance to insurance companies, dividends or experience rating refunds for completed policy years due from insurance companies, interest due and accrued, other assets.

* * * * * * * * * *

Liabilities and Unassigned Funds: Non-retirement benefit reserves by line (death, health, unemployment and vacation) for outstanding benefit claims and future benefits not covered by an insurance company, retirement benefit reserves not covered by an insurance company, contributions received in advance of due date, premiums and annuity considerations due, general expenses due or accrued, other liabilities or special funds.

* * * * * * * * * *

Summary of Operations: Contributions; investment earnings, profit on disposal of investments, adjustment for increase in asset values, other income. From the total of the preceding is deducted the total of: Premiums and annuity considerations paid to insurance companies, benefits paid directly to members, general expenses, loss on disposal of investments, decrease by adjustment in asset values, unassigned reserves account.

* * * * * * * * * *

Interest, Dividends and Real Estate Net Income: A summary of the data required under four schedules:

A. Real estate owned: Description, nature and amount of encumbrances, name of vendor, date acquired, actual cost, raserve for depreciation, value carried in assets (also determination method), and net income for current and previous year.

B. Mortgage loans: Location, description, name of mortgagee, year given, amount unpaid, rate of interest, due data, amount past due, amount racaived, amount of fire insurance on building.

C. Bonds Owned: Description, vendor, interest rate, date, maturity, date acquired, actual cost, par value, market value, value carried in assets (how determined), interest received for year.

D. Stocks Owned: Description and name of vendor, date acquired, number of shares, actual cost, market rate per share, market value, value carried in assets (how determined), dividends received during year.

E. Cash in Banks: Name of bank, interest received, balance, total of bank balances on last day of each month during year.

* * * * * * * * * *

Profits and Losses on Disposal of Investments: Description, from whom purchased and date, to whom sold and date, actual cost, book value on date of disposal, consideration, profit or loss.

* * * * * * * * * *

Increases or Decreases, By Adjustment in Asset Value of Investments: Description, reason, amounts.

* * * * * * * * * *

Experience Under Insurance Contracts (to be obtained, in writing, from insurance companies - to cover latest completed policy year).

Information by type of coverage: #

Policy year ending (insurance only), premiums and annuity considerations, amount of dividends and experience rating refunds and percentage of premium, amount of claims incurred and percentage of premium, and outstanding claims.

The following question must be answered "yes" or "no" and "yes" answers must be explained: "state whether the amounts in the column 'Dividends and Experience # Rating Refunds' include any payments, direct or indirect, to any person, firm or corporation other than the policy holder."

* * * * * * * * * *

Commissions and Allowances Under Insurance Contracts (to be provided by insurance company) covering same year as experience report:

Information by type of coverage: #

Name of insurer, names and addresses of recipients of commission and allowances, commission and allowances (separate) by amount and percentage of premium.

Footnote:
Life, accidental death and dismemberment, cash disability, major medical, medical, surgical, hospital, other coverage, pensions or retirement, and total.

(CONTINUED)

NEW YORK WELFARE FUND ACT (CONT.)
Registration And Annual Report Requirements

"Allowances" include administration fees, service fees, or any other form of allowance, reimbursement of expenses, or compensation (other than commission) paid by the insurer to agents or brokers, applicants or policy holders, or to other individuals and firms.

If the recipients of commission and allowances are not licensed as insurance agents or brokers in New York state, their occupations and the nature of services performed on behalf of the insurer must be reported.

* * * * * * * * * * * *

Benefits Directly Provided to Members: Data called for by type of benefit (including unemployment and vacation, but not major medical) covers benefit payments, and outstanding claims for the current and previous years and the totals.

Analysis of General Expenses: Salaries, fees and allowances for trustees, officers and employees (details called for in separate exhibits), professional services (details in separate exhibit), rent, printing and stationery, postage, telephone and telegraph, exchange and express, insurance, other than for benefits, travel (special exhibit), furniture and equipment, taxes, licenses and fees.

Professional Services Exhibit: Name, address, nature of service, amount including but not restricted to attorneys, accountants, consultants, actuaries and physicians and firms which administer affairs of fund.

Salaries, Allowances and Travel: All officers and trustees, others if total exceeds $5,000. All three items are segregated.

* * * * * * * * * * *

Trustees - Designated by employer, labor organization or employees, year elected, number of meetings attended during year, other occupation and union or business affiliation.

* * * * * * * * * * *

General Interrogatories: The following questions must be answered:

1. Give the names and address of the participating labor organizations for whose members the fund is operated.

2. Give the names and addresses of associated or affiliated funds.

3. How many members were in the fund at the end of the current year?

4. Are any members of the fund employed outside of New York State? If so, please give the following information: Number of members employed in New York. Number of members employed outside of New York.

5. State largest number of contributing employers during the current fiscal year.

6. a. On what dates during the past year did the Board of Trustees (or similar body) meet?

b. Are minutes kept of such meetings?

7. Have any amendments or other changes been made during the current fiscal year in (a) the types and amounts of benefits provided by the fund, (b) the terms of trust indentures, (c) pertinent provisions of collective bargaining agreements, and (d) any descriptive booklets or other similar written material given or made available to employee-members? If so, have copies of all such amendments or other changes been filed with this department? (If not, attach copies to this Annual Statement.)

8. Are the members provided with a written description of the benefits and eligibility requirements?

9. If benefits are covered by insurance contracts, were the rates and conditions in such contracts subject to competitive bidding?

10. Is a health center maintained by the fund?

11. How often are the fund accounts audited by a certified public accountant?

12. Explain how the "Annual Report," filed concurrently with this annual statement, will be made available to employee-members, contributing employers and participating labor organizations.

13. Were any loans made during the year to trustees, officers, administrators or employees? If so, list each such person, the date and amount of each loan made during the year, and the balance unpaid at the end of the current year.

14. Does the fund hold investments in the securities or other properties of any of its contributing employers or participating labor organizations? If so, specify.

15. a. How many signatures are required on fund checks?

b. Is it required that a trustee designated by the union (or employees) and a trustee designated by the employers both sign fund checks?

16. Were any of the recipients of commission and allowances shown on Page 9 related through blood or marriage or associated in any business endeavor, profession or other occupation with any fund trustee, administrator, officer, or union official? If so, give details.

17. Were all stocks, bonds and other invested assets, exhibited as assets herein, in the actual possession and in the name of the fund? If not, explain fully.

18. Were any of the stocks, bonds or other assets of the fund loaned during the year covered by this statement? If so, explain fully.

19. Is the administrator of the fund also employed by a participating labor organization or a contributing employer? If so, in what capacity?

20. Are any paid employees of the fund also employed by a participating labor organization or a contributing employer? If so, in what capacity?

(CONTINUED)

21. Describe or explain the actuarial, statistical or other methods used in the computation of the reserves.

• • • • • • • • • • •

ALSO SEE:

1. Annual Report on Page 330.1.-23.

2. Supplement To Annual Statement to be completed and filed not later than May 1, 1957 by funds which grant pension or retirement benefits not covered by insurance company on Page 164.-3.

ADMINISTRATIVE FILE
Health & Welfare
Vested Pensions

VESTED PENSIONS

A COMPLETE PENSION PLAN SERVICE

LEO FRENZEL
2425 Prospect Road
DES MOINES 10, IOWA

Des Moines, Iowa
January 18, 1957

Mr. Einar Mohn
Assistant to the President
International Teamsters Union
25 Louisiana Ave. N. W.
Washington, D. C.

Dear Mr. Mohn:

I will bein Washington D. C. about February 7, 1957. I would like very much to see you while there for a few days.

Recently, I came across a very unusual industrial process that will create a by-product in the trucking industry that is capable of producing millions of dollars of additional revenue. This money could very easily be diverted for pension and welfare purposes by the Teamsters Union because it requires no capital outlay for the employers.

I will call you from Washington for an appointment.

Sincerely yours,

Leo Frenzel

Leo Frenzel

LF:bl

Raymond Hage and Company, Inc.

Group Insurance and Pension Consultants

416 Eleventh Street
Huntington, West Virginia
Telephone 28383

Raymond Hage
President

ADMINISTRATIVE FILE ✓
Health & Welfare
Hage, Raymond & Co., Inc.

Raymond Hage and Company, Incorporated

Group Insurance and Pension Consultants

416 Eleventh Street   Huntington 1, West Virginia   Telephone 28383

January 18, 1957

Mr. Einar O. Mohn, Assistant to the General President
International Brotherhood of Teamsters, Chauffeurs,
Warehousemen & Helpers of America A. F. of L.
25 Louisiana Avenue, N. W.
Washington, D. C.

Dear Mr. Mohn:

As Chairman of your International Union's Pension Study Group, you no doubt will be faced with the problem of selecting a pension consulting firm that will provide your group with the necessary technical assistance in creating and developing a pension plan that will meet the retirement needs of participating members.

Raymond Hage & Company, Inc., has had varied experience in serving as group insurance and pension consultants to many trusteed and pure groups throughout the country. We are presently serving as consultants to Teamsters Joint Council 83 of Virginia, Teamsters Joint Council 84 of West Virginia, Richmond Bakery Workers, Cumberland Teamsters, Hagerstown Teamsters, Wheeling Teamsters, Johnstown Bakery Workers, Western Maryland Building and Trades and a multitude of other trusteed plans. We are also serving as consultants to such firms as Wheeling Steel Corporation, Libbey-Owens-Ford Glass Company, Goodyear Atomic Corporation, and others.

Our firm is composed of men who have had broad pension experience and, coupled with their formal education, have proven qualified to render complete and competent pension planning services. We are especially proud to have associated with our firm Mr. Samuel A. Miller, actuary and a Fellow of the Society of Actuaries. Mr. Miller has had more than twenty-five years of experience covering the entire gamut of pension planning--from policy formulation and implementation to problems of administration and benefit payment.

We would appreciate an interview with you for the purpose of discussing our pension services and the cost thereof. I will call you within the next few days to request an appointment.

Sincerely yours,

RAYMOND HAGE & COMPANY, INC.

Raymond Hage

Raymond Hage
President

RM/rw

ADMINISTRATIVE FILE

Health and Welfare
X McManus, Arthur T.
X

HIP HEALTH
HEALTH INSURANCE PLAN

OREGON 5-5200

HEALTH INSURANCE PLAN OF GREATER NEW YORK 7 EAST 12TH STREET NEW YORK 3, N. Y.

February 20, 1956

Dear Sir:

I think you will be interested in this reprint dealing with a topic of considerable current interest.

Cordially yours,

Arthur T. McManus

Arthur T. McManus
Director of Enrollment

ATM:CL

Enc.

Real "Free Choice" in Medical Care

REPRINTED FROM CHFA INFORMATION LETTER. PUBLISHED BY COOPERATIVE HEALTH FEDERATION OF AMERICA, 343 SOUTH DEARBORN, CHICAGO, ILL.

Opposition to prepaid group practice health plans has raised one principal outcry. Some factions in organized medicine in particular have been saying that voluntary, group practice, prepayment health plans deprive people of the opportunity freely to choose their doctors.

People who say this seem to assume that if everyone is "free" to go to any licensed physician he happens to chance upon, then high quality medical care for the population will result.

Such an assumption will not stand examination. All licensed physicians are by no means equally able, nor equally conscientious. Nor do lay people have any means of judging, individually, which doctors are competent and able, and which are not. Only the experience of illnesses actually treated can give a basis for such judgment to the average American family. Sometimes such experience is an exceedingly costly way of acquiring the knowledge upon which intelligent "free choice" of doctors can be based.

The fact is that only a minor fraction of the families of America have, today, the association with a physician that is referred to as a "family doctor" relationship. An even smaller fraction of the families of America can afford to pay for modern medical care on the traditional emergency fee-for-service basis—even if they know which doctor to select.

There is, however, a way in which the people can be assisted in choosing the best of doctors for the care of their families. And there are ways in which they can put themselves in position to pay for high quality medical care.

Choose Your Doctor Wisely

Those best able to judge the skill and ability of physicians are physicians themselves.

Every properly organized prepayment group practice health plan in the United States observes high standards in the selection of its medical staff. Most such plans have advisory boards of eminent physicians not associated with the plan who pass upon the professional competence of doctors applying for affiliation with the plan. It is the business of these boards and of the voluntary health service plans to make "free choice" really mean something.

It makes little difference how theoretically "free" one may be to choose one of several roads at the cross roads. He is only actually free when he has knowledge of the best road to take to reach his destination and freedom to take that best road.

One of the basic functions of cooperative-type group-practice plans is to help people choose their doctors wisely.

Another basic function of such plans is to enable the average family to pay, on an orderly budgeted basis, for the services of the doctors which they need. "Free choice" means little, after all, unless one can pay the doctor after he has chosen him. Prepayment makes this possible.

Far from restricting freedom, therefore, voluntary prepaid group practice health plans greatly broaden its scope by enabling their members to choose their doctors wisely and to pay them for their services. The factions who attack and oppose such plans neglect a number of important facts.

Voluntary Association

First of all, no one is required to become a subscriber or a member of such a plan. And no family or individual need continue his membership for a single day longer than he desires to do so.

The existence of such plans simply extends the field of free choice beyond what it would be without them. The people of communities where such plans are in operation have all the scope of choice of doctors that exists in other communities—plus the opportunity to choose the group health plan and its doctors if they desire to do so.

Cooperative health service plans are an assertion of an old, old American freedom. That is, the freedom of people to join together to provide for needs which they cannot meet effectively as individuals.

Doctor Has More Freedom

Secondly, from the doctors' point of view as well, the voluntary group practice prepayment plan broadens the scope of freedom of choice. The competent physician who wants to devote himself exclusively to the practice of modern medicine can associate himself with such a plan.

If he does so he is freed from the burdens of financial worry. He has an assured income. He need not go into heavy debt to equip an office with expensive devices essential to modern medicine, which may in individual practice be used only a fraction of the time. He can have real "time off" since when he is relieved of duty others on the group health team will be caring for the patients.

But there is nothing to compel any doctor to associate himself with a group practice prepayment plan. He can, if he chooses, continue in solo practice. His range of choice is simply broadened when a group health plan is established.

Opposition Would Restrict Freedom

Should the opposition of reactionary elements in and out of the medical profession succeed in destroying all voluntary prepaid group practice service plans, the result would be a severe restriction on freedom of choice.

American families would be denied the fundamental right to join together to solve their number one financial problem—that of how to pay for modern medical care. Their freedom of choice would be limited to payment on a fee-for-service basis for emergency services of solo practitioners and specialists.

Their access to wise guidance and help in making their choices of physicians would be cut off.

Their freedom to work out ways to pay the doctor for his services, to control the costs of medical care, indeed to do anything at all about the economic problems connected with medical care, this freedom would be destroyed.

And those doctors who are doctors first and enterpreneurs second, those doctors who love their profession so much that they desire to devote all their effort to it without irrelevant distractions would be denied the right to get rid of those distractions and to free themselves for the practice of their profession.

Real Free Choice

In sum, then, the development of voluntary prepaid group practice health service plans in our country extends real freedom of choice both for patients and for doctors. It does not restrict it. It establishes a new field of freedom of choice—choice between solo practice and group practice.

And it is an expression of the basic rights of free men and women to experiment in the solution of their life problems, and if they will, to apply the principle of mutual aid to these solutions.

ADMINISTRATIVE FILE ✓
Health and Welfare
X Morhouse, Charles H.
X

HEADQUARTERS
THIRD AIR FORCE
Office of the Surgeon
APO 125, New York, NY

16 February 1956

Mr. Dave Beck
25 Louisiana Avenue, N. W.
Washington 1, D. C.

Dear Mr. Beck:

Knowing all the organization problems you have been facing, I am most grateful for your recent letter and regret sincerely that your Union does not operate a Medical Care program for its members, for I would have liked to have been associated with it. Should you ever plan one, I would appreciate being kept in mind.

Thank you for your generous offer of help, and I can only say that I have corresponded with Dr. H. Grant Skinner, Smith Tower, of the Washington State Health Department, Seattle 4, concerning possible employment and with Dr. Fargher of the Tacoma-Peirce County Health Department in Tacoma, but nothing concrete has developed to date.

Mrs. Morhouse asked to be remembered to you and your good wife. I know we are all grateful that General Denson has finally made a good recovery, and we are looking forward to seeing them all this summer. Thank you again. I am,

Most sincerely yours,

Charles H. Morhouse

CHARLES H. MORHOUSE
Colonel, USAF (MC)
Surgeon

...ATIVE FILE
Health and Welfare
Morehouse, Charles H.
X

February 10, 1956

Colonel Charles H. Morhouse
Office of the Surgeon
APO 125
New York, New York

Dear Colonel Morhouse:

Because of a delay in my coming east, I did not read your letter of January 7 until a few days ago. Hence, the lapse of time in writing you.

I can well understand the desire of you and your family to establish a home in the northwest and I shall be happy to be of whatever assistance I can to this end. Our Teamster organization does not have, either on a local or International level in the northwest a medical plan in connection with which we use a doctor except, of course, as the patients select their own medical care.

Perhaps you will write me and let me know what I may be able to do as to your locating in the northwest. If you have any ideas, let me hear them.

With warm regards to you and your family, I am

Sincerely yours,

DB:aw

FROM THE OFFICE OF
DAVE BECK, GENERAL PRESIDENT
INTERNATIONAL BROTHERHOOD OF TEAMSTERS
P-2080

ADMINISTRATIVE FILE
Health and Welfare
Morhouse, Charles H.

HEADQUARTERS
THIRD AIR FORCE
Office of the Surgeon
APO 125, New York, New York

X

7 January 1956

Mr. David Beck
President
Teamsters Union
Washington, D. C.

Dear Mr. Beck:

I know that I am presuming on a very slight acquaintance with you and on your friendship with my father-in-law, General Denson, to request some information, but I know of no other source.

Under present regulations of the United States Air Force, I am eligible for retirement and would like very much to reside in a community where I can become a full member of American society and build a home that will be ours for more than the few years we have been able to settle down while in the service. The northwest appeals to all of us very much. My inquiry is as to whether or not Teamsters Union has a medical care plan for its members which could use my services on a full or part-time basis.

My education and current background is briefly as follows:

Graduate of a New York state high school.

Bachelor and Masters Degree from Brown University, Providence, Rhode Island. Instructor Lehigh University one year.

Doctor of Medicine from the University of Vermont, followed by an internship in an Army Hospital at Fort Sam Houston, Texas.

Master Public Health, Harvard University.

In 1933 I served with the CCC and took a regular commission that year, following which I was at various stations and schools until I transferred to the Air Corps in 1936. We were ordered to the Philippine Islands in 1940 and I came out after the war started with General MacArthur as his aide and family doctor. I spent most of the war in the Southwest Pacific area, and on my return commanded a three thousand bed hospital and air evacuation center on Long Island, until I entered Harvard School of Public Health in 1946, from which a Master of Public Health Degree was received. After teaching at the School of Aviation Medicine I was detailed to rehabilitate and operate a thousand bed hospital at Sampson, New York, and then came overseas.

My present assignment, which terminates next August, is Surgeon of the Third Air Force, and as such am responsible for all definitive medical care for military personnel and their dependents in the United Kingdom and Norway. Our annual medical budget approximates two million dollars, less salaries for military personnel assigned to the medical department, of whom there are some eighteen hundred.

I am a Charter Member of the American Board of Public Health and a Founding Member of the American Board of Aviation Medicine and feel that I have an excellent background in hospital administration, as well as in preventive and industrial medicine.

I would be most appreciative of any information you can give me. My interest in your organization is based on the well established reputation it has for efficiency, loyalty, and cooperative spirit, as well as the integrity of its controlling officers. I am,

Most sincerely,

Charles H. Morhouse

CHARLES H. MORHOUSE
Colonel, USAF (MC)
Surgeon

Office of the Surgeon
APO 125, New York, New York

7 January 1956

Mr. David Beck
President
Teamsters Union
Washington, D. C.

Dear Mr. Beck:

I know that I am presuming on a very slight acquaintance with you and on your friendship with my father-in-law, General Hansen, to request some information, but I know of no other source.

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I would be most appreciative of any information you can give me. My interest in your organization is based on the well established reputation it has for efficiency, loyalty, and cooperative spirit, as well as the integrity of its controlling officers. I am,

Most sincerely,

CHARLES H. MORHOUSE
Colonel, USAF (MC)
Surgeon

NEWS BUREAU OF -

CSA

1A Northwood Drive
Orinda, Calif.
CLifford 4-4341

for: California Group Vision Plan
Box 1376 TEmplebar 6-3749
Oakland, California 11/14/55

FOR IMMEDIATE RELEASE - - -

ADMINISTRATIVE FILE
Health and Welfare
X

Included among the many lagor, business and governmental organizations taking advantage of the California Group Vision Plan are a number of Teamster unions in various parts of the Bay Area, H. E. Vernon, union official, announced today.

California Group Vision Plan, a non-profit organization, stresses complete vision care rather than spectacle selling and offers participants the many benefits in cost and skilled attention offered by such a group operation, Vernon explained.

Individual unions of the Teamsters just signed up with the Vision Plan include the Retail Delivery Drivers Local 588, Oakland, Milk-wagon Drivers Local 302, Oakland, Teamsters, Chauffeurs, Warehousemen and Helpers #583 in Reno; the East Bay Automotive Machinists Local #1546 in Oakland; Chauffeurs: pos: 923, Oakland; General Truck Drivers of Contra Costa County, Martinez and Richmond; Teamster Automotive Employees, Oakland; and Auto & Ship Painters #1176, Oakland, just to name a few.

In addition, thousands of others, through their municipal, state federal or private business organizations have signed up with the Vision Plan in recent weeks, Donald R. Dodd, executive secretary, declared.

"This plan provides that members and dependents may receive complete vision care from a carefully-selected panel of professional optometrists," Dodd explained. "Services are rendered on a definite group fee basis and any materials supplied are at laboratory cost prices, the products of skilled union technicians."

# # #

George C. Newell

Sanford M. Bernbaum, C.L.U.
Pension Consultant
204 Denny Way

Donald H. Thomas
204 Denny Way
Seattle 9, Wash.

INSURANCE BROKER

Specializing in Welfare and Pension Plans

204 DENNY WAY

SEATTLE 9, WASHINGTON

Donald P. Cullition
995 Market Street
San Francisco 3, California

Tony Burenas
1419 West 8th Street
Los Angeles 17, California

Original to Mr Beck 6/28 a.W.

ADMINISTRATIVE FILE
Health and Welfare -
Southern Conference
X Newell, George C.

June 23, 1955

Mr. Dave Beck
100 Indiana Avenue NW
Washington, D. C.

Dear Dave:

In the latest issue of the International Teamster I read, with a great deal of interest, the article on the Southern Conference meeting and I noticed that Health and Welfare plans were on the agenda for discussion.

The thought occurred to me that I might be of some assistance to the Southern Conference with the experience I have gained as Broker for the Western Conference. It is quite possible I could advise them so that the mistakes we made originally in the Western Conference could be avoided.

Now do not misunderstand me. I have no desire to be the Broker or participate in any commissions from the Southern Conference, but I would like to volunteer my services at no cost to anyone, if they have another discussion on this matter at their next meeting.

I called your office in Seattle to tell you about this but learned that you had left for the East. With kindest personal regards, I am,

Very truly yours,

George

George C. Newell

GCN:vh

MANUFACTURERS TRUST COMPANY
FIFTY FIVE BROAD STREET
NEW YORK 15, N.Y.

file

ADMINISTRATIVE FILE ✓
Health and Welfare
X Stengel, Howard R.

PERSONAL TRUST DEPARTMENT

May 18, 1955

In reply please refer to

Mr. Al Weiss, Economist
International Brotherhood of Teamsters
100 Indiana Avenue
Washington 1, D. C.

Dear Mr. Weiss:

It was indeed a pleasure for Mr. Markey and myself to meet with you, Mr. Kaplan and the Attorneys for the Teamsters last week.

I am enclosing a copy of the publication "Recent Pension Plans" published by the State of New York, Department of Labor, which will give you some idea of the industry-wide pension plans in effect in New York State up through 1952. This is the latest edition of this publication, and should be indicative of some of the plans in effect.

I hope that you will feel free to call upon Mr. Markey and myself if we can be of any help to you or Mr. Kaplan in the field of pensions.

With best personal regards.

Sincerely,

Howard R. Stengel

Howard R. Stengel
Pension Consultant

HRS:jp

ADMINISTRATIVE FILE
Health and Welfare
X Meidinger, Bernard R.
X Request

May 6, 1955

Mr. Harold J. Gibbons, Secretary-Treasurer
Central Conference of Teamsters
1127 Pine Street
St. Louis 1, Missouri

Re: Bernard R. Meidinger
2008 South Brook Street
Louisville 8, Kentucky

COPY

Dear Sir and Brother:

The enclosed photostatic copy of a letter from the above-captioned is referred to you for consideration and appropriate action.

With best wishes, I remain

Fraternally yours,

Robert L. Graham
Assistant to the
General President

RLG/slb
Enc.

FFICE OF
ENERAL PRESIDENT
ERHOOD OF TEAMSTERS

BERNARD R. MEIDINGER
AND ASSOCIATES
2008 SOUTH BROOK STREET
LOUISVILLE 8, KENTUCKY

THOMAS M. KAMPFMUELLER
VICE PRESIDENT

ACTUARIES & CONSULTANTS
PENSION, RETIREMENT & EMPLOYEE
WELFARE PLANS

May 4, 1955

Gibbons

Personnel Director
International Teamsters Union
American Federation of Labor
Washington, D. C.

Dear Sir:

We are working for a client who desires to provide pension benefits for his employees. Some of his employees are members of your organization.

Would you be kind enough to tell us the type pension plans that are normally being used for members of your Union? Any information along this line will be greatly appreciated.

Yours truly,

Bernard R. Meidinger

Bernard R. Meidinger

BRM:yq

ADMINISTRATIVE FILE
Health and Welfare
X Blaine-Thompson Co., Inc.

FROM: Edith Gilson LO4-0800
Blaine-Thompson Co., Inc.
234 W. 44th St., NYC

FOR: Group Health Insurance, Inc.
120 Wall Street, New York City

VOLUNTARY INSURANCE REPORT ON HEARINGS INDICATE
CONSUMER NEED FOR BROADER MEDICAL COVERAGE

Group Health Insurance President Reveals Plan in Offing

to Provide Complete Payment of Doctor Bills for Out-of-Hospital Care

Broader medical care insurance plans are desired by voluntary insurance subscribers, according to a summary of hearings on "Public Preferences for the Extension of Voluntary Health Insurance" reviewed at a luncheon at the Harvard Club Tuesday, April 5th. The luncheon was sponsored jointly by the Columbia University Institute of Administrative Medicine and Group Health Insurance, Inc. Present were many of the witnesses who appeared at the hearings held on February 2nd, 3rd and 4th, spokesmen from management and labor groups representing more than one million employed individuals and their families. Members of the hearings panel were also present, consisting of physicians from the Columbia faculty and laymen from the GHI Board of Directors.

The luncheon was presided over by Dr. Harold W. Brown, Director of the School of Public Health of Columbia University. The speakers were Winslow Carlton, Chairman of the Board of GHI, Dr. Alfred P. Ingegno, representing the Co-ordinating Council of the Five City Medical Societies of Greater New York, Dr. E. Dwight Barnett, Director of the Institute of Administrative Medicine, and Arthur H. Harlow, Jr., President of GHI.

Mr. Carlton offered a brief summary of the February hearings (77 page report available on request) which demonstrated "that the preponderent majority clearly desired complete payment by the insurance

- more -

plan of the doctor bill." The major testimony indicated need for broader coverage with emphasis on free choice of doctor, coverage of costs of minor "everyday" ills and diagnostic services as well as the major ailments in the "catastrophic" category.

Dr. Barnett followed with an analysis of the hearings from the viewpoint of the medical administrator in the field of public health. He said that one problem was the need for the "purveyors of service to understand their role in service plans." "Is group practice the only answer?" he asked. A number of subscribers to group practice plans tend to go to their own family doctors in addition to subscribing to plans such as HIP, he stated. "We ought to try to develop the greatest values of both group practice and family doctor practice - - they are not incompatible."

Representing the Five County Medical Societies, Dr. Ingegno emphasized the medical professions' continuing interest in plans providing benefits offering complete payment of doctor bills. "The medical profession...will continue to put itself at the service of the public, and will continue to offer its experience, advice, and leadership in realizing by voluntary methods the best that is possible in free choice medical care insurance." He stressed the significance of allowing the employed or union member to really have a choice in deciding whether he wants a restricted-panel type of coverage or free choice coverage. This is "actually democracy in action", the doctor said.

Mr. Harlow, GHI President, said that GHI is "almost ready to launch a new, very broad, out-of-hospital medical care plan." This plan will be based on the major desires expressed by the buyers of such insurance as disclosed by the hearings, he remarked. The new broader coverage plan is presently before the medical societies for their consideration and will be presented to the public shortly. He expressed the hope that the new plan could be made available as a parallel to closed panel practice so as to give subscribers their choice.

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EXCERPTS FROM BRIEF SUMMARY OF REPORT ON FEB. HEARINGS ON
THE EXTENSION OF VOLUNTARY HEALTH INSURANCE - APRIL 5, 1955
Winslow Carlton - Chairman, Board of Directors
Group Health Insurance, Inc.

My function here this afternoon is to summarize in ten minutes the testimony presented during ten hours of hearings on how the buyers would like to see health insurance extended.

It should be noted that the witnesses come from organizations representing about a million employed people. They reflect a very wide variety of economic and social conditions. Every type of available health insurance or prepayment program is found among these groups, although, as it turned out, a higher proportion carry broad-scope coverage than would be found in a true cross section.

9 of the 16 witnesses replied directly to this question, "What is the relative position of health insurance in the over-all security picture as management or labor sees it?" 8 of the 9 indicated that health insurance ranks high in their security programs. Altogether, the consensus by overwhelming majority was that health insurance today occupies a very important place in the minds of both labor and management.

The second question put to the witnesses was, "Which kinds of health services not now generally covered are people most anxious to have (e.g., general care, or catastrophic coverage, or dentistry)?" All but one witness spoke directly to this point, the exception explaining that the groups with which he was associated had entered the health insurance field too recently to have begun considering any extension. 13 of the remaining 15 witnesses stated, in one way or another, that the demand for coverage beyond what might be called basic American health insurance, namely, hospitalization plus surgery and in-hospital medical care, was for general medical care; that is, for physicians' home and office services, consultations, and x-ray and laboratory tests. Several witnesses who gave that opinion added that medications and extended hospitalization benefits constituted the next most desired coverage, but an equal number indicated that dental care stood second in line of priority. Of the two who did not name general medical care as the first line for extension, one stated that he and his organization valued dentistry above additional medical benefits. The other witness took the position that the soundest and most needed type of coverage was for catastrophic illnesses, the kind of plan now usually referred to in insurance jargon as "major medical". It is accurate to say that 13 out of the 15 witnesses prefer general medical care to any other form of additional coverage.

The third question went as follows: "How do opinions run as between a plan offering a wide range of services from a limited panel of doctors and one providing more restricted benefits but from any doctor?" 8 of the witnesses seemed to believe that free choice of doctor is of major importance to consumers, while 5 think it of negligible or no importance in relation to the scope of coverage. The remaining 3 see free choice of doctor as desirable but not essential.

The next two questions asked of witnesses dealt with "service benefits", that is, full-pay coverage. The first one asked, "Of how much value is the service benefit?" and the second, "To what extent, if at all, does an income limit on service benefits detract from their value from the point of view of management or labor?" Only one witness expressly disapproved of

- more -

service benefits in principle: He contended that they remove an essential element of responsibility from the individual beneficiary and are, therefore, undesirable from a broad social point of view. But the majority from both management and labor spoke of the service benefit as an essential ingredient in providing adequate protection against the costs of health care. One witness even suggested that standard insurance carriers should emulate the non-profit plans and thus provide the advantages of a generally lower administrative cost while at the same time putting a ceiling on the charges that the beneficiary would have to pay for care. Several witnesses commented that if there must be income limits on service benefits, they should be more realistic than is now the case under some plans.

The last three questions had to do with segments of total medical care about which a good deal is being heard these days; namely, preventive medicine, psychiatry, and rehabilitation. While there are several comments on these matters that deserve attention, the witnesses by and large indicated that there was very little desire for coverage of any of these items specifically. The impression one gets from reading the full report is that preventive medicine seems pretty nebulous to most people today; and that psychiatry and rehabilitation fall into that class of care which people regard as occasionally desirable -- and usually for someone else. Altogether, this represents a lag in public understanding of important medical advances, but I am sure that people in the health insurance field will be on the watch for a change in this attitude, because the American public has demonstrated in the past how quickly it can catch up with medical progress, thanks to an alert press.

I hope that you will all take the time to read the report in full, because I believe that you will find in it a great deal of material that will be valuable to you, whether you approach health insurance from the point of view of the providers of health services, as physicians, dentists, or hospital people, or from the point of view of consumers of health services, whether as employees or as members.

ADMINISTRATIVE FILE

Health and Welfare

X

X

Employee Benefit Plan Review

CHARLES D. SPENCER & ASSOCIATES, INC.

PUBLISHERS

166 W. JACKSON BOULEVARD
CHICAGO 4, ILLINOIS

HArrison 7-6838

March, 1955

LAST MINUTE CONSIDERATION OF

HEALTH & WELFARE AND PENSION

DEMANDS CAN BE COSTLY

and too often result in dissatisfaction among your members. For example, the railroads and the non-operating brotherhoods have recently installed a very lush hospitalization-surgical-medical plan to which the worker and his employer will contribute $6.80 a month on a 50-50 basis. The contribution was recommended by a fact-finding board which also held that dependents should not be covered. The "rule of thumb" cost estimate for dependents' coverages is 1½ times the workers' coverage which means that dependents' coverage on a comparable basis would have to cost another $10.20 a month, thus calling for a total employee contribution of about $13.60 a month. It was finally decided to cut down on the dependents' coverage and charge $7.24 a month for wife and children.

Although there were special problems involved in establishing such a multi-employer and multi-union plan, the ultimate result may be a potential source of trouble since lesser benefits for dependents is not too popular, as you know.

Many employers are now averaging over $200 a year per employee in benefit plan (including pension) costs. Those costs are bound to rise since medical costs are still mounting. Demands for company-paid insurance for pensioners involve heavy expenditures. In view of this situation, it is imperative that you or one of your staff members keep a constant eye on benefit plan trends since you may experience increased resistance on the part of employers to add improvements.

In reviewing collective bargaining trends, it is interesting to note how developments spread. For example, Steelworkers-CIO established a new pension-insurance pattern in 1954. A large can company agreed to the pattern with minor variations on insurance and later extended the same provisions to a paper union. Another firm settled for the steel pattern and extended it to a chemical union. The Machinists-AFL has also settled for the steel pattern in several cases. Thus, it won't be long before the steel pattern will extend far beyond the steel industry.

The Automobile Workers-CIO will be negotiating new pension-insurance contracts in 1955 with the big automobile firms. The results are bound to influence other unions since the automobile firms have contracts with numerous unions who generally accept the automobile pattern. Teamsters-AFL is pushing health and welfare plans avidly and many employers with Teamster contracts have other unions in their plants.

Information on such developments can't be reported in outline or digest form. You can learn it only from constantly watching the trends. You can't wait until the last minute to do some hasty research on health and welfare and pension developments. You have to have the facts in order to bargain intelligently. Don't forget employers are reluctant to be "pioneers" in

negotiating new benefits so it is up to you to be able to show what other employers are doing in order to win gains.

To bring up to date and keep you informed in the future, our editorial staff has a two-fold plan for you:

1. We have just issued a special report covering the results of 1954 negotiations for pension, group insurance and health and welfare benefits. This report is arranged by the name of unions with the names of the companies and employer associations. It covers 81 unions by name and 1,015 employers or employer groups by name.

You can secure this 60-page report for only $5. However, if you also make arrangements to keep informed on 1955 developments, you can save on this price as follows:

2. If you subscribe to the EMPLOYEE BENEFIT PLAN REVIEW monthly magazine at a cost of only $5 a year, you will be entitled to purchase the above report for only $2.50, or $7.50 for both the magazine and the report.

The EMPLOYEE BENEFIT PLAN REVIEW is now in its 10th year of publication. It is factful, to the point, and impartial. Both union and management leaders subscribe to this monthly magazine, as well as the technicians in the field. Our editorial credo is to present the facts and opinions of the leaders and to permit our readers to reach their own conclusions. Because of this objective view point, our organization is able to get the facts from all sources of information, since they know we don't distort basic information.

Since our top editors have been reporting on benefit plan developments for many years, you get the results of their ability to analyze and summarize developments. We have numerous contacts where we can secure vital information and they save you hours of research time by providing you with the results in right-to-the-point summaries.

Since you have the responsibility for seeing that your members have the advantage of sound welfare programs, employee benefits warrant special attention on your part. You'll find it well worth while to mail the enclosed card at once so you can secure a copy of the 1954 summary on negotiated pension and health and welfare plans, plus copies of the EMPLOYEE BENEFIT PLAN REVIEW monthly magazine.

Yours very truly,

Charles D. Spencer
Executive Editor.

7213

THIS

12 Issues a Year
$5.00

PLUS

1 Copy for
$2.50

EQUALS THE WAY TO
BE FULLY INFORMED
ON
EMPLOYEE BENEFITS

SEE ENCLOSED CARD

ADMINISTRATIVE FILE
Health and Welfare
X Lowe, Karl J. (M.D.)
X

February 4, 1955

Karl J. Lowe, M. D.
697 West End Avenuw,
New York 25, N. Y.

Dear Dr. Lowe:

In response to your communication of February 2nd, I suggest that you contact Walter Eisenberg who is in charge of Teamsters Research in the New York area and whose address in New York is 265 W. 14th Street, telephone Watkins 4-0002.

If there are others whom you should see in connection with health insurance coverage, Mr. Eisenberg can direct you to them.

Yours very truly,

DB:ew
jo

FROM THE OFFICE OF
DAVE BECK, GENERAL PRESIDENT
INTERNATIONAL BROTHERHOOD OF TEAMSTERS

KARL J. LOWE, M. D.
697 WEST END AVENUE
NEW YORK 25, N. Y.
RIVERSIDE 9-7500

Feb. 2nd 55.

Mr Dave Beck
President, International
Brotherhood of Teamsters
100 Indiana Ave
N.W. Washington, D.C.

Dear Mr. Beck:

In many years of industrial surgery I have learned certain defects in the coverage of injured or sick workingmen and have formed means to remedy these shortcomings.

These corrections can be successfully carried out only on a large number of union members. This is the reason I am adressing myself to you.

Would it be possible to discuss this problem either with yourself or a member of your staff in New York?

Thanking you in anticipation of your reply,

yours very truly,

Karl J Lowe

ADMINISTRATIVE FILE ✓
Health and Welfare
x Medical Examination
Center
x Seth, R.E. (M.D.)

December 10, 1954

Doctor Alexander Grinstein
307 Cobb Building
Seattle, Washington

Dear Doctor: R. E. Seth, M. D.

Will you review the enclosed communication and data from Doctor Seth and we can discuss it when I return to Seattle next week.

Best regards.

Sincerely yours,

COPY

DB:aw
a
enc.

R. E. SETH, M.D. & ASSOCIATES

MEDICAL EXAMINATION CENTER

1500 FIRST AVENUE SOUTH
SEATTLE 4, WASHINGTON

R. E. SETH, M.D.
DIRECTOR
A. W. CUTTER, M.D.
ASSOCIATE
E. HAROLD LAWS, M.D.
MEDICAL CONSULTANT

TELEPHONE
MUTUAL 3343

December 1, 1954

Mr. Dave Beck, General President
International Brotherhood of Teamsters,
Chauffers, Warehouseman & Helpers of America
100-Indiana Ave. N. W.
Washington, D. C.

Dear Mr. Beck:

I am enclosing a reprint of the article on "The Development of a Medical Examination Center", which was cleared through Mr. Brewster's office before publication in the October, 1954, issue of INDUSTRIAL MEDICINE and SURGERY. There are portions of this paper at least, which will be of interest to you.

I also want to take this opportunity to thank you and your associates, particularly Mr. Vern Milton, for the cooperation and advice which has so generously been given.

The Medical Examination Center is the result of years of experience and careful planning and I sincerely hope that it will contribute progressively to the Community and Nation. It is dedicated to the principal that the Employees, their Unions, Industry, Government Agencies and the especially trained Physicians alike, all share an equal responsibility to improve the health and safety of the citizens. The physician, however, has the addwd responsibility of guidance toward that goal.

I have nursed a "dream", Mr. Beck, which must compare somewhat with yours during the development, under your brilliant leadership, of the Teamster's Union. My "dream" is by no means accomplished and this Canter, on which I have gambled a small personal fortune, is merely the "working tool" so necessary for further progress.

I am justly proud of the many workers who are alive and healthy today because their Union leaders and employers worked with me for their benefit. I cherish the respect and friendships which have been established by this association. However, only the surface has been scratched.

The next steps in my program are of such magnitude, and the benefits to all would be so great, that they cannot even be considered without the full personal auuport and advice of a top Union Executive. I have been assured by Industrial leaders and Government

officials interested in employees from a personal as well as monetary standpoint, that this program is not only feasible, but is sorely needed and would probably set a national pattern.

I know of no individual who is more suited to initiate and sponsor my proposed program than you. I say this because I have watched your progress so closely in Seattle, and because of my close association with your Union in the development of the Driver Safety program. I might add here that I have been tempted on many occasions to discuss this plan with you years ago, even in the Fourth & Pike barber shop, but I felt that it would be premature.

If you are interested, could a conference be arranged on one of your visits to Seattle? Otherwise, would you delegate a proper associate for an interview? It is my opinion that you should personally inspect the Medical Examination Center before deciding whether or not my plan has merit.

Sincerely yours,

R. E. Seth, M. D.

RES:ms
Encl. 1

ADMINISTRATIVE FILE ✓

Health and Welfare
x Central Republic
Company

November 29, 1954

Mr. J. Albert Woll, General Counsel
International Brotherhood of Teamsters,
815 - 15th Street, N.W.,
Washington, D.C.

Dear Sir and Brother:

Re: Health and Welfare Funds

The enclosed photostatic copy of letter from Dan J. Hereford, of the Central Republic Company, St. Louis, Mo., and dated November 23 1954 is forwarded for your attention and appropriate action.

COPY

Fraternally,

Robert L. Graham, Assistant
to the General President

RLG:b

FROM THE OFFICE OF
DAVE BECK, GENERAL PRESIDENT
INTERNATIONAL BROTHERHOOD OF TEAMSTERS

Al Weee

Central Republic Company

314 NORTH BROADWAY
ST. LOUIS
— 2 —

November 23, 1954

Mr. Dave Beck
100 Indiana Avenue N. W.
Washington, D. C.

Dear Mr. Beck:

I have been in contact with a teamsters union treasurer and an attorney representing the company in the administration of their health and welfare funds. The question arose with the attorney concerning the legality of investing health and welfare funds in anything other than government bonds.

Specifically, what I had in mind was investment of the health and welfare funds in Mutual Funds shares, or if this was not permissable under the Taft-Hartley Act, in high-grade corporate bonds.

I have seen in newspaper articles that you are interested in the investment of union funds in something that will bring a high rate of return and still maintain safety of principle. I would greatly appreciate your writing to me and letting me know if it is legal under the Taft-Hartley law to invest union health and welfare funds in the two types of securities that I have mentioned above.

As time is of the essence, I would appreciate a reply at your nearest convenience.

Yours very truly,

CENTRAL REPUBLIC COMPANY

Dan J. Hereford

Dan J. Hereford

DJH:UB

file

GHI Group Health Insurance INCORPORATED

120 WALL STREET • NEW YORK 5, N. Y. • WHITEHALL 3-2760

ENROLLMENT DEPARTMENT

May 26, 1954

ADMINISTRATIVE FILE
Health and Welfare
X D
X

Mr. David Kaplan
Research Department
International Brotherhood
of Teamsters
265 West 14th Street
New York, New York

Dear Mr. Kaplan:

The problem involved in selecting the best type of health insurance for its members is one which confronts every local union today.

The rising costs of medical care have made it increasingly difficult for your individual members to meet their financial obligations in this area.

The Semi-Private Surgical and Surgical-Medical Plan which Group Health Insurance, "a non-profit health insurance company" offers is designed to help solve this problem.

Not only does our Semi-Private Plan offer a higher schedule of benefits than is common, but far more important is our Service Feature which provides for full payment of doctor's bill for in-hospital surgical-medical care in all cases where a member of our Plan applies for and uses semi-private or ward accommodations and uses the services of one of our 9,000 Participating Physicians.

This Service Feature of our Semi-Private Plan (a copy of which is attached) cannot be matched by any commercial carrier and is the only method by which your members receive full protection for these areas of coverage.

I am attaching a memorandum which gives excerpts of public statements made by a number of important individuals interested in the field of health insurance who have addressed themselves to this question of Service versus Indemnity Health Plans.

I am sure that you will find this material of interest to you and I would welcome the opportunity to discuss this general problem of our specific program in greater detail at your convenience.

Very truly yours,

James V. King

James V. King

JVK/emh
Encs.

EXCERPTS OF VARIOUS STATEMENTS ON THE SUBJECT OF HEALTH INSURANCE

1. Statement by Nelson H. Cruikshank, Director of Social Insurance Activities, American Federation of Labor, before the House Committee on Interstate and Foreign Commerce, on January 15, 1954:

The typical cash indemnity or reimbursement plan does not cover all the costs even of those services which it undertakes to cover. It does not even cover a predictable portion of these costs.

It places a ceiling on benefits, but there is usually no ceiling on the actual charges made for the services rendered. Unhappy experience has shown that those charges all too often tend to vary, depending upon whether or not the individual is "insured" against them.

. . . grounds exist for a very strong suspicion that individuals covered by such plans have been left no better off than they had been without it.

2. Report to the President by the President's Commission on the Health Needs of the Nation - Volume I

Inadequacy of Present Prepayment Plans: Many of them offer only cash indemnity for medical expense, a method of compensation which often does not cover the full charge. This method also lends itself to a variety of abuses.

The extent to which the private prepayment plans meet the needs of the people should be reviewed critically and they should be judged by the extent to which they:

(1) Provide protection against the total cost of personal health services.

(2) Recognize their responsibility to the public interest by inclusion of consumer representatives on the decision-making boards in numbers at least equal to that given representatives of groups providing the services.

3. Testimony of A. J. Hayes, President of the International Association of Machinists before the Committee on Interstate and Foreign Commerce of the House of Representatives of the United States on January 15, 1954:

The so-called health insurance issued by both commercial insurance companies and the Blue Cross - Blue Shield type of organizations is written on the indemnity basis. This means that it pays limited benefits for limited items of health care . . . there is evidence to indicate that the development of indemnity type health insurance has actually played a part in increasing that cost (of medical care).

4. From Pamphlet of Committee for the Nation's Health (2212 M Street, N. W., Washington, D. C.

What are the Differences in Health Plans? Some are limited - some are comprehensive. Most plans are limited - that is, they pay just part of the sickness bills.

The better plans give services, rather than cash indemnity and are fairly comprehensive, because they cover important services.

What Should you Look for in a Good Health Plan?

(1) The plan should give service rather than cash benefits. Cash benefits always mean there is more to pay.

(2) The plan should provide health coverage for the entire family. About 75% of a worker's health expenses are for his family.

PAYS THE

GHI

DOCTOR BILLS

this is your chance
to enroll in the

Group Health Insurance Semi-Private Plan!

It will protect you against the unpredictable costs, which cannot be foreseen or budgeted for, of *doctor* bills if either you or a member of your family is stricken with serious sickness.

WHAT YOU GET

The Plan covers doctor bills for

1. Medical Care rendered in a hospital for treatment of a sickness which does not involve surgery. Typical of medical care cases are such illnesses as pneumonia, heart disease, kidney infections, etc. Payment will be made for as many as 201 days in each period of hospitalization.

2. Surgical Care in the hospital. There is no limit to the number of operations covered.

3. Surgical Care performed in the doctor's office or the patient's home. This includes an unlimited number of minor operations as well as the setting and care of broken bones.

4. Maternity Care — only if you are covered under a Family Contract (see below).

5. One Bedside Consultation with an Accredited Specialist in each hospitalized illness.

6. The Plan also pays the full cost of Visiting Nurse Service in the home in any case covered.

THERE ARE TWO KINDS OF BENEFITS

SERVICE BENEFITS

Under the Plan, Participating Physicians have agreed to accept the GHI payments as their full fee for surgical care or medical care in hospitalized illnesses if you or a member of your family

APPLY FOR and USE
SEMI-PRIVATE ACCOMMODATIONS

(A list of more than 9,000 Participating Physicians in the New York area is available in the office which is responsible for this program.)

INDEMNITY BENEFITS

- For surgical operations performed outside a hospital, for maternity care and for specialist consultations generous cash payments are made up to the amounts listed in the schedule on pages 3 and 4 to help you meet your doctor bills. To secure these indemnity benefits there is no limitation in your freedom of choice of your doctor. GHI pays the same amounts no matter what doctor you choose or what you earn.
- For doctors' services even if you are away from the New York area—world-wide coverage.
- For hospitalized medical or surgical cases if you apply for or are hospitalized in a private room or if you use the services of a Non-Participating Physician, the same generous indemnities are paid to help you with your bill.

THERE ARE THREE TYPES OF CONTRACT

(check the one on the enrollment card that fits your needs)

1. Individual Contract — covering only the employed individual.

2. Husband and Wife Contract — covering the individual and his wife (or her husband).

3. Family Contract — covering husband, wife and all unmarried children between the ages of 90 days and 18 years. This is the only type contract providing maternity benefits.

EACH FAMILY MEMBER IS ENTITLED TO ALL THE BENEFITS OF THE PLAN (except maternity benefits which are available only to the wife).

LIMITATIONS AND EXCLUSIONS

Limitations

There are waiting periods in the contract under which certain conditions are not covered until the contract has been in force for a specified period.

1. Six months for the removal of tonsils and adenoids.

2. Nine months for the care of any condition existing on the effective date of the Contract.

(THESE TWO WAITING PERIODS ARE WAIVED FOR ALL SUBSCRIBERS IN GROUPS OF 50 OR MORE EMPLOYEES.)

3. Nine months for the treatment of any obstetrical case or condition arising out of or during pregnancy.

Exclusions

Not covered by the Plan are: Functional nervous and mental disorders; pulmonary tuberculosis after diagnosis as such, except for surgical care rendered in such a case; cosmetic surgery; injuries or diseases the treatment of which is available without cost to the family member under State or Federal laws (such as Workmen's Compensation, Veterans' Compensation, etc.); services ordinarily performed by a dentist; and services for which the patient incurs no physician's charge.

CONTINUITY OF COVERAGE

If you cease to be a member of the group through which you are enrolling, you can continue your coverage by Direct Payment of your premiums to GHI.

The Group Health Semi-Private Schedule

(For complete schedule and terms governing the payment of benefits, see the contract.)

To Pay the Doctor for In-Hospital Medical Care

First two days in hospital, per day	$ 10.00
Third through twenty-first day, per day	5.00
Twenty-second through 201st day, per day	3.00

To Pay the Doctor for In-Hospital Consultation

One bedside consultation with an accredited specialist in a hospitalized case	$ 10.00

To Pay the Doctor for Obstetrical Care

Delivery of child or children	$ 75.00
Caesarian section	150.00
Operation for ectopic pregnancy	150.00
Miscarriage	50.00
with dilatation and curettage	75.00

To Pay the Doctor for

Surgical Care

ABDOMEN

Appendectomy	$150.00
Gallbladder	200.00
Resection of stomach or bowel	250.00
Tapping of abdomen, initial	25.00
subsequent	15.00

ABSCESS, CYST OR TUMOR

Not requiring hospital residence	
Incision and drainage	$ 5.00
Excision	15.00
Requiring hospital residence	
Abscess, cyst or benign skin tumor	25.00
Subcutaneous benign tumor	50.00
Malignant skin tumor	50.00
Pilonidal cyst	125.00

AMPUTATION

Thigh	$200.00
Leg	175.00
Foot, arm, forearm or hand	100.00
Single finger or toe	40.00

BREAST

Amputation, simple	$125.00
radical	225.00
Abscess, deep, requiring hospital residence	50.00

CHEST

Chest operation	$250.00
Bronchoscopy, initial	60.00
subsequent	35.00
Tapping of chest	15.00

DISLOCATION, reduction of

Hip, closed	$100.00
open	200.00
Shoulder, closed	40.00
open	200.00
Elbow, closed	50.00
open	185.00
Acromio- or sterno-clavicular separation, closed	50.00
open	125.00
Jaw, closed	20.00

EAR, NOSE AND THROAT

Fenestration	$250.00
Laryngectomy	250.00
Mastoidectomy, simple	150.00
radical	200.00
Tonsillectomy, adenoidectomy, or both	
Person 12 or over	50.00
Child, under 12	40.00
Puncture of antrum, initial	10.00
subsequent	5.00
maximum	50.00
Septum, resection of nasal	75.00
Esophagoscopy	75.00
Eardrum, puncture	20.00

EYE

Operation for detached retina	$150.00
Cataract, removal	175.00
Removal of eyeball or cutting into eyeball	150.00

FRACTURE, treatment of

Femur, closed	$175.00
open	250.00
Vertebra, closed	100.00
open	175.00
Nasal bone, closed	35.00
Jaw bone, closed	50.00
open	150.00
Collar bone, closed	50.00
open	100.00
Upper arm, closed	100.00
open	150.00
Forearm	
Radius, closed	65.00
open	110.00
Ulna, closed	50.00
open	110.00
Both, closed	100.00
open	175.00
Colles, closed	75.00
open	135.00
Finger, closed	40.00
open	80.00
Toe, closed	40.00
open	80.00
Leg	
Fibula, closed	60.00
open	100.00
Tibia, closed	100.00
open	150.00
Both, closed	125.00
open	200.00
Potts, closed	100.00
open	175.00

GENITO-URINARY TRACT

Removal of kidney	$250.00
Surgical removal of stones, kidney	200.00
ureter	150.00

Surgical Care (cont'd.)

Cutting into bladder	125.00
Prostatectomy, one stage	225.00
second stage	125.00
Transurethral resection of prostate, complete	200.00
partial	150.00
Bladder tumors, endoscopic treatment of,	
initial	60.00
subsequent	25.00
Removal of bladder, sub-total	200.00
Cystoscopy, initial	30.00
subsequent	20.00
Varicocele, hydrocele, orchidectomy	75.00

GYNECOLOGICAL

Hysterectomy	$200.00
Other operation on uterus or its appendages	150.00
Repair of cystocele, rectocele	100.00
Dilatation and curettage, non-puerperal	50.00
Cervix, electrical cauterization	15.00
Conization or polypectomy	25.00

HERNIA

Single	$100.00
Double	150.00

JOINTS, Aspiration Of

JOINTS, Aspiration Of	$ 15.00

RADIO-THERAPY

Application of deep x-ray, per treatment	$ 10.00
Maximum of twenty treatments	200.00

RECTUM

Hemorrhoids, external	$ 35.00
Internal, or internal and external	75.00
Incision	10.00
Prolapsed rectum	150.00
Fistula, anal or rectal	75.00
Fissure	
Not requiring hospital residence	25.00
Requiring hospital residence	50.00
Proctoscopy, with removal of papillomas	
or polyps, initial	35.00
subsequent	10.00
Diagnostic, with biopsy, initial	15.00

SKULL

Cutting into cranial cavity	$250.00
Ventriculography	75.00

SPINE OR SPINAL CORD

Operation on spine	$250.00
Removal of coccyx or of transverse or spinous process	100.00

TENDONS, LACERATED

Suturing of, single	$ 50.00
multiple, each additional	15.00
maximum of 8	170.00

THYROID

Thyroidectomy	$200.00
Benign tumor of thyroid	125.00

VARICOSE VEINS

Ligation and division, saphenous vein and branches,	
one leg	$ 75.00
both legs	100.00
Long incision, ligation and excision,	
one leg	125.00
both legs	200.00
Ligation and division, short saphenous vein	50.00
Injections, each	5.00
maximum	50.00

Note: If two or more operations are performed concurrently, the maximum payment made shall be the greatest benefit, plus one-half the lesser benefits, but not more than two times the greatest. Procedures performed at one time through the same incision or approach shall be considered as one surgical procedure and payment shall be made for that single procedure to which the highest credit in the schedule is applicable.

Group Health — GHI PAYS THE DOCTOR BILLS — Insurance, Inc.

120 WALL STREET NEW YORK 5, N. Y.

WHITEHALL 3-2780

ADMINISTRATIVE FILE
Health and Welfare

PROPOSED SOLUTION OF PROBLEMS ARISING FROM THE UNCONTROLLED CREATION AND OPERATION OF HEALTH AND WELFARE PLANS AND PENSIONS

That a business stock corporation be set up to administer Health and Welfare Plans and Pensions, to provide expert advice concerning all phases of Health and Welfare Plans and Pensions, insured and self-insured, to provide expert advice concerning the investment of Health and Welfare Plans and Pension funds, all such funds if self-insured or the funds in excess of premium requirements and expenses if insured, and to act as an Insurance Broker.

Such a corporation should not be subject to the Banking laws since it would not accept deposits nor would it be an Insurance Company, since it would not cover any risk. It would, to the extent it engaged in the insurance brokerage business, but subject to those laws governing insurance brokers.

Such a corporation could act as an insurance broker in many states, provided its responsible managing officer is a licensed broker and in many states he may by action of the Board of Directors be permitted to carry on his own insurance brokerage business.

DISCUSSION OF PROPOSED SOLUTION OF PROBLEMS ARISING FROM THE UNCONTROLLED CREATION AND OPERATION OF HEALTH AND WELFARE PLANS AND PENSIONS

We recognize that since the passage of the Taft-Hartley Act is is presently impossible to develop a national organization to handle Health and Welfare Plans and Pensions similar to that set up within the framework

of the Upholsterers International Union.

We recognize also that since the passage of the Taft-Hartley Act the administration of all Health and Welfare Plans must be through a Board of Trustees with equal Union and management representation.

We recognize that it would not be impossible to set up a few trusts national in scope, each covering a separate industry. However, it seems clear to us that national collective bargaining agreements must precede rather than follow the creation of such trusts. In this respect we note the suggestion of one court that each individual employer may be entitled to a trustee. We think this position is erroneous, however, since such trusts must be set up by collective bargaining a limitation of such trust by judicial decision to the appropriate bargaining unit is highly probable.

Experience has shown that while the various Boards of Trustees cannot be compelled as a matter of law to have Union administration of a plan or one plan or a group of approved plans from which the parties or the Trustees may choose such results can be and have been achieved by Unions in the field of collective bargaining.

ADMINISTRATION

At the present time the administration of Teamster Health and Welfare Plans is on a Joint Council and Local Union level.

Such control as may be exercised either at the Joint Council, Regional Conference, National Conference or International level must be and is being exercised by and through internal union procedures, pressures and politics.

The first question, therefore, is whether the solution, under the present restrictive legislation, lies within the framework and structure of the International itself, with control over only one-half the Board of Trustees, i.e., the Union appointed trustees, or through a separate organization controlled by the International Union.

Whatever form of control that may be attempted within the framework and structure of the International union must, of necessity, at most be indirect, and primarily remedial in nature unless the International becomes a real party to each and every collective bargaining agreement.

This, under present legislation, would impose on the International a direct legal liability for damages for acts of Local officers and members out of all proportion to the benefits to be obtained and would require an administrative staff, paid for out of the International Treasury likewise out of all proportion to the benefits to be obtained.

It therefore seems to us that the ideal solution, under present laws, lies in the creation by the International Union of a separate, subsidiary organization, a business stock corporation controlled by the International Union with which the Local Unions and Boards of Trustees and Employer Associations can enter into contractual relations.

The Local Unions could contract for advice as could Employer Associations but, what is of most importance, the Boards of Trustees could contract with the Corporate subsidiary to administer their Health and Welfare Plans and Pensions.

Thus, for all practical purposes, the necessity for indirect control through Union procedures, pressures and politics would end when a Board of Trusteees contracted with the subsidiary corporation to administer a Plan.

Once the contract was entered into the International would through its corporate subsidiary have direct, immediate and positive control; control which could be exercised unimpeded.

It is possible that International pressure may be necessary in some case to obtain the necessary co-operation

of a recalcitrant local union and it is conceivable that certain constitutional modificatinne might facilitate the application of such pressure. However, normally such pressure would need to be exerted only once, i.e. to obtain the contract to administer in the first instance.

Then too, there is the possibility, in certain cases, that economic action may be necessary before employer groups would appoint Employer Trustees favorably disposed to entering into contractual relations with the subsidiary corporate administrator.

These problems, however, are not insoluble - they are practical problems, susceptible over a period of time of practical solutions. Experience has demonstrated that such employer opposition to the exercise of a substantial degree of control at the Joint Council level has from time to time existed but that it can be and has been overcome as a practical matter.

Experience has also shown that the co-operation of recalcitrant Local Unions and even Joint Council can as a practical matter be obtained.

There is no reason to believe that similar results cannot be obtained nationally although it would take time.

The present unsatisfactory condition has been seven(7) years in the making; it cannot reasonably be expected to be cleaned up and regularized overnight.

The extent of control that could be exercised by the International Union depends on the manner in which such a corporation is set up.

Such a corporation could be owned 100% by the International Union, in which event the International Union's control would be complete and absolute.

It could be owned 51% by the International Union and 49% by subordinate bodies, in which event, while the International's control would be complete, it would not be

absolute since the minority stock holders would be entitled to certain rights.

It could be owned 50% by the International and 50% by a subordinate body or bodies or by properly setting up the By-Laws and the first Board of Directors control could be retained by the International as a practical matter, however, such control would not be complete or absolute since the rights of the holder of 50% of the stock could be exercised in such fashion as to exert substantial pressure on the International.

It could be owned by the International and subordinate bodies with the International holding less that 50% of the stock and the International could retain control at least to the extent of being able to exercise a veto power.

It could be owned entirely by subordinate organizations or more than one corporation could be set up each owned by a subordinate organization and the International could retain control at least to the extent of being able to exercise veto power.

This brings us to the policy question. Looking at this problem from the standpoint of the International Union it is clear that sole ownership by the International Union is the ideal solution. Whether at the present time, in view of the existing vested interests of subordinate bodies of the International Union such an ideal solution is impractical, is a matter upon which we have insufficient date to even hazard an opinion.

That there would be some opposition within the International, particularly at the start, is apparent from the general discussions on Health and Welfare policies which took place at Miami Beach. How much of the opposition is but "sound and fury" and how much is substantial it is impossible for us at this time to accurately estimate.

However, this we believe to be true.

A sound, efficient corporate administration of various Teamsters' Health and Welfare Plans and Pensions would be its own answer to those who may, because of their present vested interest, be inclined at the present time to take a short term view of the matter.

To conclude this phase of our discussion:

Since direct International control of Health and Welfare Plans is legally and practically impossible the best method of exercising such control at the present time is through a subsidiary corporate administrator controlled by the International.

Thus, the Union procedure, processes and politics normally need be used but one, i.e., to obtain the contract between the corporate administrators and the Board of Trustees. Thereafter, if the corporate administrator does a job the contract will, without doubt, be extended as will the length of the term of succeeding contracts and soon what was once though novel will be habitual.

We should not fail to point out that the corporate profits, after a proper surplus is accumulated, would revert to the membership either indirectly as dividends to the International or directly by reducing the costs of administration and thereby increasing the assets of the funds being administered.

EXPERT ADVICE

Such a business corporation need not limit its activities to the collection of employer payments and the processing of claims which is the essence of administration, as we have mentioned it could also contract to provide expert advice and assistance in all matters pertaining to Health and Welfare Plans and Pensions.

The subsidiary corporation could contract with a Local Union or an Employer association, or both, to advise throughout the original negotiations. Or it could supply

such advice and assistance at no cost to the Union or the Employer association in the hope of obtaining the contract to administer the Health and Welfare Plan or Pension, or even the brokerage.

It could and should in addition to contracting for administration, contract to provide expert advice and assistance to the Board of Trustees. Substantial sums are now being paid private persons and companies by Teamster affiliates for such expert advice and assistance.

Under the proposed subsidiary corporate set up the cost to each trust would be nominal, however, the income to the subsidiary corporation should be such as to permit it to employ the very best qualified experts.

The employment of such experts is not a proper charge against the International, its treasury or its members. It is a proper charge against each Trust Fund.

In addition, if the International controlled the corporation it could directly implement its policy through these very same experts. And this could be done without creating any unnecessary problems within the International itself.

We have referred to expert financial and investment advice which could also be provided.

The ability to conduct a successful strike has been seriously impaired by the growth of conditional sales and time payment plans.

Other things being equal, stability of employment, etc., the degree of impairment is in direct proportion to the wage structure. Where a high wage structure exists more purchaces are made on time simply because merchants are willing to extend more credit.

Many Health and Welfare Plans today are negotiated on the basis of a flat sum per month, a sum calculated to provide sufficient money to pay the cost of the premium,

administration and Trust Fund expenses.

Under most of these plans an employee's coverage ceases the end of the month following the month in which his employment ceases.

Thus, there is added to the evil effect of time plan purchases the knowledge of the employee that his and, in many cases, his family's doctor and hospital bills will soon be his own.

There are two other methods by which the employer's payment into a Health and Welfare Plan or Pension may be computed.

One is based on a stipulated amount of money for each hour worked by an employee. The other is based on a stipulated amount of money for a stipulated amount of production, i.e. tons, barrels, etc.

Under either system the Trust Fund has, or should have, money to invest over and above that required for premium payments, administration and operating costs.

Under either system a reserve can and should be built up to provide protection for the employee and his family during periods of unemployment whether by strike or otherwise as well as to provide protection during periods of partial employment.

The skilled investment of such funds would provide a greater income for each such fund and could be used to provide coverage for a longer period of time or broader coverage as the circumstances in each case might indicate.

In any event, the Subsidiary Corporate Administrator, for a fee, could see to the proper investment of such funds so as to produce the highest yield with the least risk.

BROKER

Such a corporation could act as a Broker.

That the responsible managing officer of its Insurance Brokerage Business would have to be a licensed broker is

true. However, he would be on salary and his death or incapacity would not sever the relationship between the Corporation and its Trust Fund clients.

Once again the very best in the Insurance Brokerage field could be hired at a nominal cost to each Trust Fund.

CONCLUSION

The creation of a business stock corporation controlled by the International, to the extent such control is desirable, would give the International the necessary machinery to effectuate its policies in the field of Health and Welfare Plans and Pensions.

The International could through such a corporate subsidiary participate in every phase of the Health and Welfare Plans and Pensions negotiated by its subordinate organizations from the inception of negotiations to the payment of benefits. It could provide the very best expert advice and assistance obtainable at the lowest possible cost. It could do a job for its entire membership.

From a public relations standpoint, since the International would be, ideally, the sole stockholder, it could name a Board of Directors of outstanding ability, one that would command the respect and admiration of Industry, and Labor, the Public and the Government in all its departments, and it could do so without losing control. It could obtain the services of outstanding experts in insurance, medicine and finance, paid for as they should be by the Boards of Trustees and not by the International out of its dues structure. The field is almost without limit.

While this discussion is lengthier than we would like to have it, we have nevertheless merely outlined the picture. We have not attempted to answer the many questions or objections that this outline may suggest although we know that there is a satisfactory answer to each question and objection.

In the event you have any questions or would care for a more detailed explanation of any point we will be pleased to answer or explain.

Very truly yours,

s/ P. H. M.

P. H. McCarthy, Jr.

ADMINISTRATIVE FILE
Health and Welfare
X
X

April 8, 1954

Mr. Baker Royer, Chairman
Joint State Government Commission
Room 450 Capitol Building
Harrisburg, Penna.

Dear Sir:

Survey of Private and Public
Pension and other Benefit Plans

Your letter of March 15 on the above subject has been referred to our representative, Mr. Thomas E. Flynn, Secretary-Treasurer of our Eastern Conference of Teamsters.

Undoubtedly you will hear from him within the near future.

Sincerely,

Einar O. Mohn

mr

FROM THE OFFICE OF
DAVE BECK, GENERAL PRESIDENT
INTERNATIONAL BROTHERHOOD OF TEAMSTERS

April 6, 1954

Mr. Thomas E. Flynn, Secretary-Treasurer
Eastern Conference of Teamsters
105 Spring Garden Street
Philadelphia, Penna.

Dear Sir and Brother:

Survey of Private and Public
Pension and other Benefit Plans

The enclosed letter will be self-explanatory. Any information which you may be able to furnish Chairman Royer will be appreciated.

With best wishes, I am

Fraternally yours,

Einar O. Mohn
Assistant to the
General President

mr
Encl.

FROM THE OFFICE OF
DAVE BECK, GENERAL PRESIDENT
INTERNATIONAL BROTHERHOOD OF TEAMSTERS

COMMONWEALTH OF PENNSYLVANIA

JOINT STATE GOVERNMENT COMMISSION

OF THE GENERAL ASSEMBLY

P. O. BOX 81
ROOM 480 – CAPITOL BUILDING
HARRISBURG

March 15, 1954

International Brotherhood of Teamsters,
Chauffeurs, Warehousemen & Helpers
100 Indiana Avenue, Northwest
Washington 1, D. C.

Gentlemen:

Pursuant to a directive of the Pennsylvania General Assembly, the Joint State Government Commission is engaged in a survey of public and private pension and other benefit plans.

The attached list of employers in our survey sample have advised us that their employes are covered by pension and disability plans sponsored by your union.

In order that we may determine the principal features of pension plans covering Pennsylvania employes, will you kindly complete the checked items of the enclosed forms and return them to us at your earliest convenience? (A postage-paid return envelope is enclosed). Duplicate copies of the forms are provided for your files. Additional copies of the forms will be provided upon request. The data relating to individual pension plans will be regarded as confidential and used only for the computation of over-all measures.

If you have any questions regarding the completion of the forms, do not hesitate to call Mr. George Burdick at Harrisburg 8-5151, Extension 2962, reversing the charges.

The Commission appreciates your cooperation.

Very truly yours,

Baker Royer

Baker Royer
Chairman

P.S. A copy of the Commission's report to the General Assembly will be yours for the asking.

1954 Annual Conference

BLUE CROSS PLANS **BLUE SHIELD® PLANS**

April 4-8, Waldorf-Astoria Hotel, New York City

COMMISSION HEADQUARTERS: 425 NORTH MICHIGAN, CHICAGO 11, ILLINOIS

ADMINISTRATIVE FILE
Health & Welfare
X

March 29, 1954

Mr. Dave Beck, President
Intl. Bro. of Teamsters, Chauffeurs, Warehousemen & Helpers of America
100 Indiana Avenue, N.W.
Washington 1, D. C.

Dear Mr. Beck:

Leaders of the nonprofit, community-supported Blue Cross Plans and Blue Shield Plans for hospital and medical service prepayment will soon be attending the 1954 National Conference of Blue Cross and Blue Shield Plans, April 4-8 in New York City. Executives and trustees of the 85 Blue Cross and 77 Blue Shield Plans of the United States and Canada will review the year's progress and will re-set their goals of offering the public the greatest possible protection against the financial hazards of hospital and medical care.

Therefore, it seems appropriate that we send you at this time a brief report of current progress in the nation as a whole:

> At the close of 1953, Blue Cross enrollment totalled more than 46,000,000 people (29.0% of U.S. population; 27.2% of Canadian population) in the areas covered.
>
> At the same time, Blue Shield enrollment was more than 28,000,000, 19.5% of U.S. and 12.4% of Canadian population.
>
> During 1953, Blue Cross Plans paid hospitals $674,118,893 for services rendered to subscribers and their dependents; this represented 88.6% of income.
>
> During 1953, Blue Shield Plans paid physicians $254,430,046, which was 81.0% of income.

We are sure that you share our pride in the achievements of Blue Cross and Blue Shield. During our National Conference, delegates from your state will join delegates from the other states in studying methods of improving still further the scope and effectiveness of Blue Cross and Blue Shield services in all areas, and will return home with new ideas and techniques for raising these Plans to an even higher level of effectiveness in their roles as vital public services to the American people.

Sincerely yours,

James E. Stuart
James E. Stuart, Chairman
Blue Cross Commission

L. Howard Schriver
L. Howard Schriver, M.D., President
Blue Shield Commission

Telefax **WESTERN UNION** Telefax

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RDV DL PD Int. Bro. Teamsters March 24, 1954

ADMINISTRATIVE FILE

Health & Welfare

X Kaiser Foundation

X

Dr. Sidney R. Garfield
Kaiser Foundation
280 MacArthur Blvd. West
Oakland, California

Replying your wire March 22, no authority is vested in our International Union to interfere with autonomy of local unions regarding insurance health programs other than commitments that might exist by mutual agreement between the local union or the San Francisco Joint Council of which they are a member or the Western Conference of Teamsters. The subject

(end page one)

Send the above message, subject to the terms on back hereof, which are hereby agreed to

PLEASE TYPE OR WRITE PLAINLY WITHIN BORDER—DO NOT FOLD

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WESTERN UNION

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Telefax

Page 2.

matter should be processed through the local union secretary.
In no snese can I take any position on it as International
President because to do so would contradict the authority
vested in me under the International Constitution

Dave Beck

annw

Send the above message, subject to the terms on back hereof, which are hereby agreed to

PLEASE TYPE OR WRITE PLAINLY WITHIN BORDER—DO NOT FOLD

1269—(5-50)

Telefax **WESTERN UNION** KF Telefax

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RDV DL PD Int. Bro. Teamsters March 22, 1954

ADMINISTRATIVE FILE

Health & Welfare

x Kaiser Foundation

x

Dave Beck
552 Denny Way
Seattle, Washington

Following wire received here Quote Mr. Kaiser asked me to wire you the following information. We have approximately 500 members of the Milk Wagon Drivers and their families on Kaiser health plan in Oakland area. We understand that during the next few months their plan will be changed to an insurance health program. Many of these members have received their medical care from us during past eight years and have indicated to us their wishes for continued member-

(end page one)

Send the above message, subject to the terms on back hereof, which are hereby agreed to

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WESTERN UNION
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Page 2.

ship. In the past you have indicated to Mr. Kaiser and me a great deal of interest and belief in our program therefore we are asking if your office can arrange for a method that would permit these members of your union to have a choice of the Kaiser Health plan or the proposed insurance plan. May I call you Tuesday concerning this matter. (Signed) Dr. Sidney R. Garfield, Kaiser Foundation, 280 MacArthur Blvd. West Oakland, California End Quote

Einar O. Mohn

annw

Telefax WESTERN UNION Telefax

MAR 22 1954

O=LLC176 LONG PD=OUX OAKLAND CALIF 19 339PMP=
DAVID BECK GEN PRES INTL BROTHERHOOD OF TEAMSTERS=
100 INDIANA AVE NORTHWEST WASHDC= Sheet 1/2

MR. KAISER ASKED ME TO WIRE YOU THE FOLLOWING INFORMATION-

WE HAVE APPROXIMATELY 300 MEMBERS OF THE MILK WAGON DRIVERS AND THEIR FAMILIES ON KAISER HEALTH PLAN IN OAKLAND AREA. WE UNDERSTAND THAT DURING THE NEXT FEW MONTHS THEIR PLAN WILL BE CHANGED TO AN INSURANCE HEALTH PROGRAM. MANY OF THESE MEMBERS HAVE RECEIVED

THE COMPANY WILL APPRECIATE SUGGESTIONS FROM ITS PATRONS CONCERNING ITS SERVICE

To DBB
Rec'd 3/22

1270 (1-51)

WESTERN UNION

MAR 22 1954

THEIR MEDICAL CARE FROM US DURING PAST EIGHT YEARS AND HAVE INDICATED TO US THEIR WISHES FOR CONTINUED MEMBERSHIP. IN THE PAST YOU HAVE INDICATED TO MR. KAISER AND ME A GREAT DEAL OF INTEREST AND BELIEF IN OUR PROGRAM THEREFORE WE ARE ASKING IF YOUR OFFICE CAN ARRANGE FOR A METHOD THAT WOULD PERMIT THESE MEMBERS OF YOUR UNION TO HAVE A CHOICE OF THE KAISER HEALTH PLAN OR THE PROPOSED INSURANCE PLAN. MAY I CALL YOU TUESDAY CONCERNING THIS MATTER=

DR SIDNEY R GARFIELD KAISER FOUNDATION, 280 MAC ARTHUR BLVD, WEST OAKLAND CALIF.

1954 MAR 22

1270 (1-51)

OK 3/24

VESTED PENSIONS

A COMPLETE PENSION PLAN SERVICE

LEO FRENZEL
2425 Prospect Road
DES MOINES 10, IOWA

ADMINISTRATIVE FILE ✓
Health and Welfare
X Vested Pensions
X

March 23, 1954

Mr. Einar Mohn, Ass't. Secretary,
Teamsters, Chauffeurs, Warehousemen & Helpers of America Int'l. Bro. of (AFL),
100 Indiana Ave. N. W.
Washington 1, D. C.

Dear Mr. Mohn:

I wish to thank you again for the time you gave me out of your busy day to tell you about our copyrighted "Vested Pensions" plan.

The reception we received on the preliminary introduction of "Vested Pensions" was very good. Most union officials quickly recognized that "Vested Pensions" was a pension service that had long ago been requested by their membership.

"Vested Pensions" is now ready for use by your Local Unions for the benefit of their members. However, it is our established policy to cooperate in any manner possible with the International Union, so we wanted to contact you and see if there was anything else we could do for your International Union, after you had reviewed "Vested Pensions", and before we release our servicing organization which will be contacting the larger Locals in your union.

Your union may want some additional time so your Executive Board may meet and examine "Vested Pensions", or you may desire to set up the mechanics in your union to place "Vested Pensions" before your membership. Will you please inform us of your needs so we can help you?

We would like to program our service operations to aid your union in a manner that would please you; so your reply telling us of any plans your union has for using "Vested Pensions" would be appreciated.

Yours sincerely,

Leo Frenzel

LF:hl

Leo Frenzel

VESTED PENSIONS

The Copyrighted .... Vested Pensions plan, that fulfills the need for a pension for every employee.

This new type Pension Plan can be used by any Employer, for all the eligible Employees who can be covered by a pension, regardless of the size of the business.

To thoroughly understand this new Pension Plan you should not relate it in your reasoning, in any manner, with present types of pension plans with which you may be familiar.

Here are some of the features of this new Pension Plan, which are completely covered in the enclosed Plan and Trust Agreement, which is ready for you and your legal counsel to examine and approve; so these pension benefits may be yours.

Look for these fine pension features as you read the Plan and Trust Agreement.

1. Every eligible employee can be covered by this Pension Plan, the size and type of business is of no consequence.

2. The Employer is not burdened with any past Employee service credit funding, neither will there be any need to revise the pension formula in the future.

3. The Trustee of the Vested Pensions plan will keep all the Employees records and do practically all of the administrative work in this Pension Plan.

4. The contributions to the Pension Plan for the Employees are sent in quarterly by the Employer to the Trustee. These contributions are based on the hourly rate or percentage of wages paid. The Employers pension obligations is limited to those Employees who are actually on his payroll during the calendar quarter. The amount of pension contributions may be changed.

5. This Pension Plan pays full benefits for Total and Permanent Disability, Death, or Pension, to every Employee, or his Beneficiary, or Beneficiaries, under all circumstances, covered by the Plan. No Employee, can lose his or her pension under this Pension Plan, because their rights are completely vested. (Vested means complete ownership of all funds).

6. Under this Pension Plan an Employee retains his full pension, although he may transfer from Employer to Employer covered by this Pension Plan, or a similar Pension Plan, having a common Trustee, or if he quits working for an Employer who was using this Pension Plan.

7. There is no compulsory retirement date for the Employees. They may retire any time after becoming qualified for retirement. Each Employee covered by this Pension Plan has his own pension account. The pension he will receive was earned by his employment. The Employer will always have his obligation for a pension to his Employees completely met.

8. Pension and Disability benefits may be paid monthly, quarterly, semi-annually or annually by the Trustee. Death benefits can be made in a lump sum settlement, or over a period of years. An Employee, with his consent, has the right to have an insurance annuity purchased for him at the time of retirement.

9. There are no physical or age qualifications.

10. Employer can terminate this Pension Plan for valid reasons.

11. There is no complicated administrative setup that will require the attendance of the Employer at meetings for administration of the Pension Plan, or the purchase and managing of investments for the Pension Plan.

12. The investments for the Pension Plan are purchased by the Trustee, quarterly, from the pension contributions, at the direction of the Employer. These investments may be purchased from well established banks, insurance and investment companies whose investments will qualify for use in the Pension Plan. The Pension Plan permits the change of the qualified investments to be purchased in the future.

13. This .... Vested Pension plan was designed to give a much needed and a much desired pension service to every Employer who wants a

pension plan. The administrative features are simple and the cost of the Pension Plan is consistent with the average operational cost of pension plans having less service features than this Pension Plan.

14. The simplicity of this Pension Plan makes it very easy to understand and to administer. No expert advice is needed on pensions by the Employer or the Employee.

15. The .... Vested Pensions plan was designed for use in collective bargaining between an Employer and a Union.

Here are some of the services that will be performed by the Trustee of this Pension Plan for the Employer and his Employees.

Services of the Trustee:

1. Keep all Employee pension records.
2. Give individual Employee a statement of his pension account when requested to do so in writing.
3. Notify the Employer and the Union if quarterly pension contribution payments are delinquent.
4. Supply the Union with a copy of the quarterly pension contribution made by the Employer.
5. Annual statement of trust to the Employer and the Union.
6. Annual statement of quarterly contributions to the Pension Plan by the Employer for use in securing income tax deductions, a copy will be given the union.
7. Pay all authorized Pension, Death or Disability benefits.
8. Purchase insurance annuities for Employee.
9. Purchase, hold, and liquidate, all investments.
10. Perform all the other duties necessary to the operation of the Pension Plan.

All these pension services are packed into a pension plan ready for your use.

LEO FRENZEL E. W. LOCKNER

1000 Grand Avenue

DES MOINES 9, IOWA

Telephone 8-8549

OSTHEIMER and COMPANY, Inc.

1510 CHESTNUT STREET PHILADELPHIA 2
LOCUST 4-4166 CABLE ADDRESS "OSTHEIMER"

WILLIAM F. DRAKE
VICE PRESIDENT AND CONSULTANT

PENSION PLANS
PROFIT-SHARING PLANS
GROUP INSURANCE PLANS
ACTUARIAL SERVICES
EXECUTIVE DEFERRED COMPENSATION PLANS

March 18, 1954

ADMINISTRATIVE FILE
Health + Welfare
X
X

Mr. Dave Beck, General President
International Brotherhood of Teamsters
100 Indiana Avenue, NW
Washington 1, D. C.

Dear Mr. Beck:

Your progressive plan to review the welfare programs of your various locals, as reported in recent news releases, is most interesting. It appears to us that in undertaking a top level administrative investigation you will do much toward strengthening and preserving these important social gains.

Although we have not cleared the point with Mr. Backhus, we would be pleased to have you seek his estimate of our qualifications. We have recently had the pleasure of working with him in the establishment of the Milk Dealers'--Union Pension Plan and the Ice Cream Industry--Union Pension Plan.

We believe that we are particularly well qualified to act as your consultants in reviewing all aspects of your welfare plans. In this connection, we believe the enclosed brochure, describing our services in this field, will furnish you and your associates a good general background of our operations.

We would like very much to meet with you and your associates at a time and place convenient to you for the purpose of determining the possibility of our serving you and the International Brotherhood of Teamsters.

Yours very truly,

William F. Drake
William F. Drake

WFD:dkf
Enclosure
P.S. Just in case the West Coast is absorbing your attention at the moment, we are sending a copy of this letter and enclosures to your Seattle Office.

OSTHEIMER AND COMPANY, INC.

ADMINISTRATIVE FILE
Health and Welfare
X
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4166
XXXX

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COPY

Ostheimer AND Company Inc.

Since this book was published, we have formed a new corporation which provides the actuarial, consulting and administrative services offered for years by Ostheimer and Company in the Employee Benefit field—pension plans, profit-sharing plans, group insurance (health and welfare) plans and executive deferred compensation plans.

OTHER OSTHEIMER SERVICES

OSTHEIMER AND COMPANY will continue, specializing in estate planning and the diverse personal and business problems which involve the use of insurance and annuities of all types for our individual clients. Ostheimer and Company has a staff of specialists all of whom have had legal, trust department and life insurance experience. It serves individuals—many of them the executives of our corporate clients. In this field, our experience covers some twenty years of unusually successful estate analysis and planning work, and of business and professional insurance and annuity sales and service.

OSTHEIMER-WALSH, INC., fire, casualty and marine insurance brokers, is another affiliate. Formed at the end of 1951 by merging the general insurance business of Ostheimer and Company with the well-known brokerage firm of Brendan D. Walsh, Inc., this company represents a large and diversified clientele. The quality of Ostheimer-Walsh service is outstanding. The personnel are eminently qualified to solve any problems in the field of general insurance.

These diversified Ostheimer facilities—employing more than 100 specialists, technicians and service men and women—make available under one roof a complete [illegible] all of our clientele.

EMPLOYEE BENEFIT PLANS

PENSION

PROFIT-SHARING

HEALTH AND WELFARE

EXECUTIVE ARRANGEMENTS

OSTHEIMER AND COMPANY

Consultants and Administrators

Philadelphia 2, Pennsylvania

C O N T E N T S

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Ostheimer AND Company

We at Ostheimer and Company design, cost, evaluate, formulate, install and administer all types of Employee Benefit Plans. Thus, Ostheimer and Company are both consultants and administrators in this field.

As consultants, we advise you, the client, when you feel (or your employees express the feeling) that an Employee Benefit Plan of some kind should be seriously considered. We review all the possibilities with you until you are sufficiently well informed to reach a sound decision. As consultants, we may also thoroughly review an existing plan to determine whether it is accomplishing the purposes intended and doing so most economically. We seek out possibilities for improvements and forecast difficulties which may arise in the future unless headed off by direct action.

As consultants then, Ostheimer and Company design new plans and redesign old plans, cost and evaluate different possibilities and help insurance companies and attorneys translate plans into formal documents which will receive the necessary Governmental approvals. As consultants, our primary aim is to help you decide *what* you want to do and *when* and *how* you want to do it.

As administrators, Ostheimer and Company help you to finalize, merchandise and install new plans or to revise old plans and, thereafter, to supervise the administrative routines. Or, we may take over the responsibility for the general administration of an existing plan (including the actuarial work) should you be dissatisfied with those in charge. As administrators, it is our job to keep *you the client* out of trouble and to make sure that each of your plans operates smoothly and properly in every way.

For years we have worked, both as consultants and administrators, on all known types of Employee Benefit Plans with all kinds and sizes of industrial firms and businesses, with professional and with labor people. From this long, well-rounded experience springs the knowledge and the skill—the Know-How—to do a thoroughly sound, top-flight job for you.

EMPLOYEE *Benefit* PLANS

The field of Employee Benefit Plans, as we think of it, covers all types of plans which can provide your employees with retirement benefits, insurance and welfare benefits or deferred additional compensation. The field includes all kinds of pension plans, certain types of profit-sharing plans, all forms of health and welfare plans (sometimes called group insurance plans) and various special arrangements for executive groups.

A PENSION PLAN or PROFIT-SHARING PLAN may cover all employees—or only the salaried employees—or non-union employees—or employees exempt from wage and hour laws—or only those employees whose annual basic compensation (or total earnings) is in excess of some specific dollar figure, such as $3,600 or $5,200 or some larger amount.

A PENSION PLAN may be formal or informal, funded or unfunded, insured or uninsured. It may have almost any desired schedule of normal retirement ages with provisions for retirement earlier or later than normal. Pension benefits—within broad limitations set by law, custom and cost considerations—may be provided at almost any level which is deemed reasonable and adequate. Employees receiving an annual base salary of more than $3,600 or those in the supervisory and management category may be given a larger total benefit than the rank and file to compensate for the lack of Social Security benefits on earnings in excess of $3,600. Death and disability benefits can generally be included or excluded as you choose. Those eligible for the plan can be required to contribute toward the cost of benefits if that approach is favored. Participants who leave service before they become eligible for retirement can be allowed a vested interest in your contributions, if desired. The amount of the Company's future contributions may be tied to a fairly rigid schedule or considerable flexibility can be provided, the incidence of funding being geared to the client's own circumstances. The assets of the pension fund can be invested under the supervision of a corporate fiduciary, your top management group or an insurance company's experts. Use of equities,

including the Company's own securities (with Governmental approval), may be limited or unrestricted as desired. Likewise, the other plan specifications can be tailor-made to suit your beliefs and pocketbook.

PROFIT-SHARING PLANS providing for distributions in the future—upon retirement, death or termination of employment—are a most important segment of the Employee Benefit Plan picture. When distribution is deferred, the fund may be handled by a trust company or an insurance company or both. The investment policy is geared to suit the circumstances of the particular case. The formula which determines the share of net profits to be contributed to the profit-sharing plan is of paramount importance. So is the procedure for allocating company contributions (along with income earned by the fund and amounts, if any, forfeited by participants who leave service prematurely) among the participating employees. Of course, the accumulated amount credited to the account of each participant is used to provide his benefits at his retirement or disability or it is paid to his beneficiary at his death or—to the extent set forth in the plan—is available as severance pay if his services are terminated. Under a profit-sharing plan, the incidence of funding is normally geared directly to profits. No profits—no contributions to the plan. Otherwise, the specifications are not unlike those of a pension plan.

Both **PENSION** and **PROFIT-SHARING PLANS** are normally—but not always—designed to conform to Treasury Department rules and regulations interpreting the tax laws. Then your payments to the funds are deductible expenses for Income Tax purposes and accumulations in the funds are Income Tax-exempt. Participating employees are free from tax on your contributions for their deferred benefits but, at the time they are received, benefits become taxable income.

FLYING START. Ostheimer and Company puts its experts quickly on the spot where they are needed. Here, Arthur M. Bremer *(left)*, head of Ostheimer and Company's Employee Benefit Plan operations, and Aubrey White, one of the nation's top actuaries, take a plane from Philadelphia.

HEALTH and WELFARE (Group Insurance) PLANS may consist of life insurance, accidental death and dismemberment insurance, sickness and accident weekly indemnity insurance and hospital, surgical and medical expense insurance in various combinations. The plan may be underwritten by one or more insurance companies. Or the hospital-surgical-medical portion may be handled wholly or in part by the "Blue Cross-Blue Shield" type of organization. Or some of the benefits may be self-insured in one way or another. A plan may treat all employees alike or it may differentiate between salaried and hourly employees, between those in different earnings brackets or those in other classifications.

Among the more common **EXECUTIVE ARRANGEMENTS** for those in top management are employment contracts, salary-continuance-after-death programs, plans to furnish disability income or to pay for major disability expenses, and profit-sharing plans coupled with stock purchase agreements.

Today, the employer is rare indeed who has no Employee Benefit Plan. In fact, many employers have a complete package of all the different types of plans to protect various groups of their employees.

What about your Company? What do you have? Are you sure you have exactly what you should have? Do your present plans function exactly as you expected? Are you anxious about the future of your plans? Is what you have being financed and administered in the best possible way? What thinking have you done about what you don't have? How long before you will want to have other plans?

If you have any thought of acquiring a new Employee Benefit Plan or of altering an existing plan, or if you have any reservations about the soundness or adequacy of an existing plan, Ostheimer and Company can help you.

DOUBLE EXPOSURE. F. Huston McIlvain *(center)*, president of Downington Paper Company, is served on two fronts by Ostheimer experts—J. Edmund Dwyer *(right)*, consultant of Ostheimer and Company, and Robert L. Beling, fire insurance specialist with Ostheimer-Walsh, Inc., an Ostheimer and Company affiliate.

NEED FOR A *Consultant*

When you decide to investigate the possibility of a new Employee Benefit Plan or when you feel that an existing plan should be re-examined for one reason or another, two quite different courses of action are open to you.

The "let's be our own consultant" course of action

If you choose to be your own consultant, you invite all your friends and acquaintances in the insurance business and key banking connections—without obligating your Company—to give you propositions on the type of Employee Benefit Plan you (or they) think you need. In all probability, the mass of information you accumulate and the sales talks you get (not to mention such complex arguments as the pros and cons of insurance company operation versus trusteeship) will only generate confusion and burden you with paper work. The plans presented will differ in details and specifications. Total benefits to be provided will vary. Cost estimates and the incidence of meeting these costs will be dissimilar. You will be faced with the problem of spotting and evaluating these differences and the even greater problem of deciding exactly which plan is best suited for your Company. In the face of sales pressures from many sides—each adviser has his own special axe to grind—*you* will somehow have to select one specific plan from all those submitted.

Although your confusion may well increase the risk of selecting a proposition which will prove unsatisfactory in the long run, that is only one of the principal dangers in this procedure.

Will all these various people really study your problem in detail? Will you take the necessary amount of your time and theirs for each of them to become thoroughly familiar with your ideals, beliefs and budget? Will they explore your Company's history and your future prospects, your surplus and working capital position, your industrial relations and stockholder problems? Will they show you *all* the approaches to your problem—including plans which they may not regularly offer—so that you may have a reasonable chance of being exposed to the particular plan that is best suited to your situation? Can you really expect this comprehensive service without giving some reasonable assurance of fair compensation?

Most important of all, which of your key men will be required to take hours and hours from your own business operation to become expert enough in this special subject to formulate conclusions which may be regarded as a safe basis for formal corporate action?

We have seen company after company follow this course of action. In many cases, no plan at all is consummated because of management's confused thinking, because of its failure to become proficient in a complex foreign field. Or, management becomes exhausted and grabs blindly at what appears to be the best proposition or follows the line of least resistance as an escape route from the pressures which are being applied.

The "let's hire a consultant" course of action

On the other hand, suppose you decide to hire career consultants. At the outset, you recognize that you are not expert in this field and that it is not economically sound for anyone in your top echelon to become an expert for this once-in-a-lifetime type of decision. Therefore, after due consideration and investigation of all likely candidates, you employ consultants to do a professional job of analyzing your problems, to pinpoint exactly what you want to accomplish, to explore with you the various practicable procedures which may provide solutions, to make sure that you understand completely the pros and cons of the different procedures—which must be presented to you in full and unbiased fashion—and to assist you to reach a sound and sensible conclusion of which you and your employees can be justly proud.

In retaining professional consultants, not only are you guided gradually to the most satisfactory solution, after having reviewed all the alternatives, but you are assured of continuing guidance in maintaining the program in satisfactory condition in the years ahead—all without sales pressure. Reliable and experienced consultants, who are assured of reasonable compensation for their efforts, will be cultivating a long-term relationship and not trying to make a fast dollar. Thus, you can avoid both confusion and risk, keep the attention of your own executives full time on your own business and assure yourself of accurate and adequate answers to all your questions as you proceed confidently toward a conclusion.

To be sure, it is hard for some executives to appreciate the reasons why they should pay a fee to consultants when they can obtain what appears to be adequate information without charge. But most of the many employers who have been through the mill have learned by their own experiences and the experiences of others that, in the field of Employee Benefit Plans as in all other fields, *you get what you pay for.*

When you need professional services, such as legal or accounting, you don't call in half a dozen firms, asking each to submit its detailed analysis of your case (along with complete briefs and specific recommendations) so that you can then pick the one you want and compensate that firm *alone.*

No, you do nothing of the kind. You investigate the professional standing and experience of several firms. Then you decide which one to engage before you ask any of them to undertake important commitments of the only things they, as we, have to offer—Time and Know-How. In the field of Employee Benefit Plans, more than average professional skill and experience are required. Seeking counsel in this field should be on the same basis—if first-class results are expected.

FINISHED PRODUCT. K. M. Henderson, president of Ditto, Incorporated, ...ago, hands out employee benefit plan material run off on a Ditto machine. With ...
are: E. H. Owen, Oetheimer and Company, and K. M. Hugg, director o... ...rial relations, T. W. Robinson, Jr., chairman of the board, B. M. Wright, treas... of Ditto Incorporated, and C. R. Kaufman, attorney for the firm. Owen is one o... ...theimer and Company's top-ranking actuaries

to

right)

LEGAL APPROACH. Herbert W. Reuner (center), chief staff attorn... and Company, and Leland O. Welsh (left), another staff lawyer, disc... complexities with Edward S. Weyl, attorney for International Resist... Philadelphia. Reuner is a former staff attorney of The Tax Court of ...

QUALIFICATIONS OF *Consultants*

Working in the field of Employee Benefit Plans are four groups from which you can select one or more advisers. They are (1) the trust companies, (2) the independent actuaries, (3) the insurance agents and brokers and (4) the professional consulting firms. Some of these advisers have considerable experience and talent. Others have limited experience and incomplete facilities; perhaps only a few employees, no qualified actuary.

Trust companies active in this field are thoroughly capable. It is their business to invest and administer trust funds. In recent years, some trust companies have established departments to aid clients in designing and installing Employee Benefit Plans, especially pension and profit-sharing plans. However, you would hardly expect a trust company to promote actively any form of insured plan or any plan using individual trustees rather than a corporate trustee.

In recent years, a great deal has been heard of the term "independent actuary." Since this phrase requires analysis, let us first clarify the word "actuary." In the United States and Canada, there is the Society of Actuaries which has two classes of members—Associates and Fellows. Memberships are obtained by a progressively difficult series of examinations. Overlooking those actuaries who have migrated from Europe, the only qualified actuaries are those who are Associates or Fellows of the Society. However, the term has been kidnapped by a relatively large group of individuals who have failed to pass the examinations for membership in the Society as well as by those who have never taken the examinations for various reasons. And what about the word "independent"? How independent are "independent actuaries"? Like other professionals, actuaries charge fees for services rendered. Where do their fees come from? No actuarial fees are paid on fully insured plans. But they

are paid on all uninsured plans. Since only uninsured plans will normally provide actuarial fees continuously, you can hardly expect an "independent actuary" to promote insured techniques.

Insurance agents and brokers will represent one insurance company entirely, will do business principally with one insurance company or will have connections with a large number of companies. However, few agents or brokers are staffed to do their own actuarial work or the intensive work necessary for designing and installing pension and profit-sharing plans. Virtually all agents and brokers rely almost entirely on their insurance company connections for actuarial calculations and technical assistance. Therefore, turning to practically any insurance agent or broker limits you to the propositions of the particular company or companies which the agent or broker chooses to represent. Hence, you are denied the opportunity to understand and consider the possibilities in other insured procedures and uninsured procedures.

We believe that a firm which qualifies as a bona fide consultant (1) has done a substantial volume of Employee Benefit Plan business of all kinds, (2) is equipped with actuarial talent to design, install and operate uninsured plans as well as insurance-trained talent to design, install and operate insured plans, (3) may be compensated either by fees, commissions or a combination of both *and does not care which*, (4) makes a practice of showing its clients an unbiased and complete picture of all reasonable possibilities for the specific case, (5) has the experience and scope of operation to give you a complete picture of the whole insurance company and trustee markets and (6) is set up as a permanent organization.

Ostheimer and Company is such a firm.

HAPPY SOLUTION. Officials of Square-D Company and representatives of Ostheimer and Company find a satisfactory answer to a knotty employee benefit problem. Seated *(left to right)* are: Allan D. Emil, attorney, L. W. Mercer, executive vice president, James Magin, assistant to the president, and Henry Morgan, secretary-treasurer, all of Square-D Company. E. H. Owen, an Ostheimer actuary, points to recommendation while R. R. Fuller, Ostheimer and Company consultant, looks on.

Ostheimer and Company

A GOOD CONSULTING FIRM

There are persuasive reasons why Ostheimer and Company is a good consulting firm:

1 We have been in the Employee Benefit Plan business for a long time. As long ago as 1941, we had the know-how to acquire such important clients as Chrysler Corporation and The Electric Auto-Lite Company with whom we have had splendid relationships down to the present.

2 We have used extreme care in building our staff over a period of years. As a result, it is a most unusual combination of pleasant personalities, relatively young in years but old in experience and wisdom. Our staff includes a highly competent actuarial and calculating department, topped by three outstanding actuaries; a well-organized law department of four staff attorneys, and a group of consultants well versed in all phases of our business. The Employee Benefit Plan staff numbers more than forty people. We have talent in depth, always more than needed to service our clientele at all times.

3 Ostheimer and Company has been organized so as to assure the permanency of our business operation. Neither the death nor total disability of any of our key men will seriously interrupt the prosecution of our work or operate to the disservice of our clientele.

4 We have deliberately tried, albeit without complete success, to restrict our clientele to our logical territory, roughly the area bounded by a line from Philadelphia to Boston to Toronto to Chicago and back to Philadelphia. We normally seek clients no further away from our offices in Philadelphia than we can travel overnight by rail or in a few hours by air.

5 We have declined to establish branch offices on the theory that tight control of internal policy matters is particularly important in a fast-changing business such as ours. It is also our belief that *all* of our clients should have the benefit of *all* of our talent. This would not be possible if we established

HIGH COMMAND. In the Ostheimer and Company top command are *(from right)* A. J. Ostheimer, III, founder and head of the firm, Herbert W. Reisner, chief staff attorney, and Arthur M. Bremer, in charge of Employee Benefit Plans. With them is A. Hawthorne Criddle *(left)*, vice president of Ostheimer-Walsh, Inc., an Ostheimer and Company affiliate.

OPENING SCENE. Entering mid-Philadelphia building which houses Ostheimer and Company are two of the firm's consultants, William J. Probst *(left)* and Richard W. Baker.

branches and spread our talent in a thin layer among them. Absence of branch-office facilities has proven no handicap. Our staff is constantly on the move within the territory. In fact, by not having to supervise branch-office operations, each staff member can devote more time to actual case work.

6 Our primary interest is in establishing a satisfactory relationship with our clients for the long term. We are not usually interested in spot or hit-and run business. We do not use package-sale techniques. Consequently, our entire operation is geared for permanent service, from the first interview through years of mutually profitable business dealings.

7 We believe that we are objective and impartial in dealing with our clients' problems. It is standard procedure for us to insist that each client see and understand all the angles of his particular problem and all the practicable solutions before he attempts to reach a decision. We say what we believe, irrespective of expediency. We never straddle an issue or sit astride the fence of indecision.

8 We have never been exacting about the size of our clients. We like them both large and small—from companies employing a handful of employees to those with thousands. All get our best work and serious attention.

9 We have painstakingly avoided working for employers who insist upon unsound practices. We have conscientiously tried to keep our clientele out of plans which would probably have been unsuccessful in the long run even if it meant a temporary loss of income dollars to us. These high standards most certainly paid off in the 1945-1950 period when we saw many of our competitors spend a large part of their time undoing mistakes made in the preceding five years. In fact, we were called upon to help straighten out many of these mistakes.

FEATURE PROGRAM. A. J. Ostheimer, III *(left)*, presents employee benefit program to members of the board of the New York Water Service Corporation. Board members are *(clockwise from Ostheimer's left)* H. R. Baxter, H. C. Rosenthal, B. D. Fischman, Richard L. Rosenthal, president; C. B. Myers, secretary-treasurer; R. L. Boehm and C. R. Baxter.

FUNCTION OF *Ostheimer* AND *Company* AS CONSULTANTS

Let's start with the case of a Company which now is without a pension plan or a profit-sharing plan or a comprehensive group insurance plan but whose management feels that some such plan may be desirable in the near future. The Company's executives want to explore the possibilities. We at Ostheimer and Company are invited to express our views on the procedure they should follow.

Almost without exception, we recommend a preliminary conference with the Company's top management to give us an opportunity to size up the Company and its problems and to give the management a chance to look us over. If the Company appears seriously interested in trying to develop a sound plan or plans for some or all of its employees, we evaluate the work to be done and offer the Company a business arrangement which will give us some assurance of reasonable compensation for the services to be rendered. (The preliminary interview is always without obligation. However, we do not commence work until some mutually acceptable financial arrangement has been made as described on page 26.)

If and when we are retained, we normally request an additional conference attended by those in top management who determine the financial and industrial relations policies. At that meeting, we gather the basic facts about the Company itself—its earnings, taxes, working capital, debt-service requirements, stockholder relations and the like—so that we have a general understanding of the Company's present status and future prospects. Then, we learn about the Company's different classes of employees, its personnel relations problems, the status of any union contracts or negotiations, the general level of wage and salary scales, the competition encountered in hiring new employees, the general incidence of turnover and similar items affecting the work force and its morale. Also, we inquire about any other Employee Benefit Plans

now maintained by the Company as well as about any pension, profit-sharing and health and welfare plans in the same area and industry which should be considered.

At this same meeting, we also dig deeply for the management's thinking—likes and dislikes, beliefs and ideals—on the two major issues involved: (1) *who* should receive *what* benefits and *when* payments should commence and (2) the Company's *ability to pay* for the benefits to be provided. These conversations are extremely important in shaping our initial ideas of principal specifications for the plan or plans which we must outline for the management's consideration. Even more important, these conversations stimulate management's thinking in a preliminary way so that, while we progress with our studies and the preparation of our preliminary reports, management can independently consider and discuss the major points involved.

After this initial conference and armed with the necessary employee data, our staff begins its work, first deciding upon the various plans and variations of plans to be proposed. It is customary for us to present several different plans, often with a whole series of alternative specifications for each. The necessary cost estimates are prepared for each plan. When this work has been completed, we meet with management as often as necessary to review the various plans and cost estimates and to focus gradually and increasingly on the specific plan or plans which fit the particular situation best of all. Obviously, this may involve many revisions of plan outlines and cost estimates and the exploration of additional possibilities. All this is done with one eye on the Company's ideals and beliefs and the other on the Company's ability to make its contributions, while not overlooking other matters such as collective bargaining problems and stockholder reaction.

PRELIMINARY REMARKS. Staff personnel of Oslheimer and Company exchange small talk prior to periodic discussion of employee benefit trends and overall company policy.

RISING INTEREST. Against background of escalator in Joseph Horne Co. department store, Pittsburgh, are *(from left)* A. H. Burchfield, Jr., president of Horne's; A. J. Ostheimer, III, head of Ostheimer and Company; Henry W. Fulton, Horne secretary; J. Edmund Dwyer, of Ostheimer and Company; G. A. Palmer, Jr., Horne personnel director.

Ultimately, a point of decision is reached. The Company decides either to place a full-scale plan in operation or to proceed with a limited plan on the theory that it is sound to crawl before you walk. Or the Company may postpone the installation of any plan at all for the time being. The plan may be a pension plan or a profit-sharing plan or a group insurance plan or a combination of two or more plans. It may be simple or complex. It may be insured or uninsured or self-insured or partly one and partly another. Of course, the circumstances in each case are different because the people who manage each company are different, their businesses are different, their financial situations are different and their industrial relations problems are different.

This procedure is not inflexible. It must of necessity be kept flexible at all points to meet the needs of individual cases. Furthermore, a final decision in one case may be made rapidly, in another case, months and sometimes even years may pass by before a final decision is reached.

In recent years, the injection of Employee Benefit Plans into collective bargaining has brought us many new problems. Several years ago, we began to recommend to our clients that they should study benefits which their unions might be expected to seek in future bargaining. We did this so our clients could determine how far they could go in meeting demands and so they would be prepared to negotiate sound plans that were fair to both management and labor. This policy has been vitally important to many of our clients. They were well informed when serious bargaining commenced. Time and again, they were able to avoid the pitfalls into which some of their competitors tumbled. They negotiated plans which time has proved eminently sound and more beneficial than average to both themselves and their employees.

Frequently, we have persuaded our clients to let us handle the technical aspects of bargaining on Employee Benefit Plan subjects. We have worked with their industrial relations and management representatives, especially when union bargaining teams have their own technicians. As a result of our experiences in this special field, giving the client all the help he will accept in actual bargaining is now a regular part of our consulting service.

Development of the detailed terms of the plan which our client wants and should have is our prime objective. *The PLAN is what counts.* Until the plan has been outlined in detail, we believe it is unnecessary and inadvisable to inject into the picture such matters as the degree, method and medium of funding. The proof of this statement is that many questions about funding are resolved automatically in most cases by the terms of the plan itself. At the very least, completion of plan specifications will narrow the field materially so that the question of how to fund the plan becomes much less complex.

When the plan's details have been settled and the funding question is on the table for decision, we invariably give the client the particulars of all appropriate ways to fund the plan, including a factual presentation of the advantages and disadvantages of each procedure. In this connection, it is our regular custom to give our client full details on the entire insurance market when an insured plan is considered and to discuss the relative advantages and disadvantages of corporate and individual trustees when an uninsured plan is contemplated.

If and when the decision is made to proceed with a detailed plan to be funded in a specific manner, we assist the client's attorneys with the preparation of trust agreements and other legal documents which are required if an uninsured plan is involved. Or we help to negotiate the terms and provisions of the contract(s) with the insurance company(ies) if an insured plan has been selected. Of course, we also assist in presenting the plan to the Company's Board of Directors and stockholders for formal approval and in submitting it to the various Governmental agencies, such as the Treasury Department and Wage and Salary Stabilization Boards.

Thereafter, our role is principally that of an administrator.

FUNCTION OF

Naturally, the administrative burden of each particular plan will be related to the details of the plan itself. Consequently, the following outline of our function has only general application to most cases

First, we help to prepare the plan-announcement material to be given to employees Usually, this material takes the form of an attractive booklet especially designed to develop a high degree of interest in the plan This merchandising of the plan is intended to obtain for the employer the maximum good will for his expenditures

Second, we set up the procedure for presenting the announcement material to the eligible employees and enrolling them. A meeting of all employees may be held. or separate meetings may be held of management people, of supervision employees and of the rank-and-file. The last group is often handled on a plant. department or shift basis Here it is our job to carry out the enrollment smoothly and efficiently, without undue loss of employee work time

Third, the complete administrative and accounting routines and procedures must be developed and finalized in cooperation with the trustee(s) insurance company involved The Company's employee who is charged with the responsibility of operating the plan has to be educated, of course, in his duties and responsibilities

Fourth, after the plan is installed as an operating instrument, we continually check on the plan in many ways such as these:

1. We maintain contact with the plan's complete operation, solving any special problems as they arise.

2. We make sure that everything possible is done to keep the employees sold on the plan and aware of its benefits.

3. We watch for developments inside and outside the Company which may make it advisable to recommend changes in the plan.

4. We compare the actual costs of the plan as they develop with the initial cost estimates in order to spot trends which should be countered by appropriate action. Thus, we make certain that the plan's long-term costs are as economical as possible.

5. We re-evaluate the plan from time to time in the light of such new laws, rules and regulations as may be applicable and of developments generally.

6. We furnish such actuarial studies, valuations and other factual material as are required by management, government agencies or union contracts.

Most important of all is our conscientious and wholehearted interest in all aspects of the plan. Regularly, we are at the client's side to discuss and act on any matters which may arise in connection with the plan.

TABLE TALK. Oltheimer and Company puts facts and recommendations on the table before top management. Here, aspects of the employee benefit plans of Lukens Steel Company, Coatesville, Pa., are explained by F. H. Owen *(standing)* and A. J. Oltheimer, III *(extreme right)*, to *(from left)*, Charles L. Huston, Jr., president of Lukens, W. Roy Waldoes, member of the president's staff, Stewart Huston, vice-president and secretary, I. W. Herman, treasurer and Robert G. Bloom, controller, all of Lukens.

CONSULTING *Services* FOR EXISTING PLANS

Every Employee Benefit Plan requires a complete review periodically to determine whether or not it is functioning in all areas with maximum effectiveness. Such an analysis calls for a critical re-examination of the plan from every angle—the basic design of the plan, its cost level in relation to profits and surplus, the Company's tax position, the degree of employee appreciation being realized, the adequacy of benefits and their correlation with changes in Social Security and other governmental benefit plans, changes in the Company's financial structure, union activities, etc.

Ostheimer and Company offers expert consulting services to help employers maintain sound and reasonable Employee Benefit Plans in spite of changing conditions.

Here is a *partial* check list:

Pension Plans

1 Are operating, financial and actuarial reports available promptly for the use of management (or a joint board of administration) and for maintaining the plan's tax-exempt status?

2 Does the particular funding medium now being utilized actually provide the desired benefits at reasonable cost, with such flexibility in the yearly rate of payment as is needed for future safety?

3 Should the rate of funding be stepped up to take advantage of relatively high profits and/or high tax rates with consequent reductions in cost in less advantageous years (tax-wise or profit-wise) in the future?

4 Does the level of benefits being provided permit the orderly retirement of older employees in the light of the present-day net earnings of the employees involved?

5 Have the benefits for salaried employees (especially those in the supervisory and management group) kept pace with the benefits for hourly rated workers?

6 Are benefits vested so rapidly that turnover is unduly rewarded (or perhaps actually encouraged) with resultant drain on the funds set aside for the plan or, vice versa, is vesting so slow that the plan's holding power over trained employees is inadequate?

Profit-Sharing Plans

1 Should the formula for determining the share of profits to be paid into the plan be altered to reflect changes in the Company's financial structure or in its business operations or personnel distribution or in the Federal Income Tax Law?

2 Are the eligibility requirements for employee participation so tight that they keep deserving employees from sharing in current profits or, on the other hand, so loose that the interests of permanent employees are diluted by rapid vesting of benefits among relatively short service employees with a high turnover rate?

3 Does the formula for the allocation of Company contributions and income from invested funds among the participants produce fair and equitable results for all classes of employees?

Health and Welfare (Group Insurance) Plans

1 Are benefits being provided under the different coverages at an adequate level, considering present take-home pay, the high cost of hospital, surgical and medical care and the essential needs of survivors?

2 Does the plan include all the various coverages which should be made available to employees?

3 Do the supervisory and management groups have coverage commensurate with their scales of living?

4 Has the coverage been broadened to reflect improvements made available generally in recent years?

5 Does the plan contain checks and balances to prevent malingering by active employees and run-away costs for pensioners?

6 Is a qualified expert riding herd on the plan's financial experience to keep the net costs of the plan in line?

7 Does the plan include excess coverage for catastrophic medical expenses not covered by regular plans?

8 Has a detailed comparison of Blue Cross-Blue Shield with insured plans been made to determine which is actually the best and cheapest for the particular case?

Executive Arrangements

1 Has the plan been carefully reviewed lately to determine its soundness under the latest laws, rulings and court decisions?

2 Has the cash compensation of the top management group reached (or passed) the level at which, under present high Income Tax rates, a sound plan for deferred compensation would be advantageous?

In General

1 Is the plan apt to be the subject of collective bargaining so that skilled technical assistance will be needed to avoid serious pitfalls?

2 Has the plan just "gone to seed" through neglect — is it an obsolete model?

3 Have major problems been created because of mergers or the acquisition of subsidiaries or additional properties?

4 Is management dissatisfied with the job being done by the present broker, insurance company, actuary or trustee to the extent that it is desirable to obtain a fresh viewpoint?

5 Do plan records and administrative procedures need streamlining?

6 Can combinations and consolidations be made to improve financial experiences or increase the maximum benefits or produce more economical operations?

FOR EXECUTIVE PERSONNEL

Today, we find management devoting more and more attention to various special types of plans to improve the lot of the executive group and to offer greater incentives for new key personnel to join the Company and for present key personnel to remain with the Company. These plans provide additional or contingent deferred compensation to be paid to executive employees and their beneficiaries at a later date with far less serious tax consequences than result from additional, current compensation.

In this field, there are many possibilities to be considered, including pension and profit-sharing plans limited to those earning in excess of some specified amount, such as $3,600, or $5,200, or $6,000, or $7,500, or $10,000 a year. Among other possibilities are an increase in the group life insurance coverage for the executive group, as well as special provisions for relatively long-term income replacement coverage and major catastrophe medical expense coverage in case of disability. Again, there is the careful use of employment contracts for individual executives as well as formal or informal plans for continuing salaries to the families of deceased executives for a reasonable period after their death.

METHODS OF *Compensation*

We at Ostheimer and Company are paid for our services both as consultants and administrators. Although financial arrangements with our clients vary, our compensation for consulting work on new plans is generally based on the following:

1 Pension and Profit-Sharing Plans. It is our practice to charge a moderate fee to cover the consulting work, including actuarial services, up to the date management decides to adopt some plan or to have none at all. Normally, an end-date for our work is set, for example, at the end of six months or a year. This is to keep the period covered by our consulting services within reason.

In most instances, in addition to the moderate fee, we obtain a commitment from the client that we shall handle any plan or plans that may result from our work. If the plan is uninsured, we provide the continuing consulting and actuarial services necessary to administer the plan properly. If the plan is insured, we serve as the client's broker and handle the administration of the plan.

Since it is obviously best for us to act as consultants as a preliminary to a permanent relationship, when the client gives us such a commitment our consulting fee is set simply to cover our actual time charges and overhead. On the other hand, when the client prefers not to give us such a com-

mitment, our consulting fee must include a reasonable margin of profit since we then have no assurance of further employment by, or compensation from, the client.

2 Health and Welfare (Group Insurance) Plans. If the client will give us a commitment that we shall act as his broker for any new business which may result from our work, we usually do not need to charge any fee at all, except in rare cases where there is either no reasonable likelihood of new business or where there is substantial collective bargaining work. In any event, the client can designate us as broker without disturbing any vested commission interests which prior brokers may have earned. We would simply become entitled to such new commissions on new business as are allowed by any insurance companies involved.

It is our contention that, since commissions must be paid by the insurance companies on new group insurance business, the services of an expert consulting firm can usually be obtained for *exactly the same price* as the services of an agent or broker who knows little or nothing about the technicalities and complexities of this type of business.

3 Executive Arrangements. We find that there is so little uniformity that it is impossible for us to adopt any standard procedure. Hence, each case is treated on its own merits.

We want to emphasize that we never take the client by surprise. On the contrary, we invariably negotiate with him, before work is commenced, on the precise financial arrangements which are to govern his case. We never charge a fee unless it is absolutely necessary to cover the costs of our work or — when we are not protected by a suitable commitment — to give us a reasonable margin of profit. Sometimes, when the scope of our work is not readily determinable in advance, we quote an uncertain fee in the form of a stated

minimum figure and a stated maximum figure, the exact fee to be finally determined by us upon completion of our work. Due consideration is always given to the business risks involved and to the possibility or probability of future fee and commission income.

We are occasionally asked why any fee at all is needed to cover our consulting and actuarial services when we are given a commitment covering any plan or plans which may be developed. To this question, there is a simple answer. If an uninsured plan is adopted, the subsequent fee for our consulting and actuarial work as administrators would be grossly distorted if it also included a fair and reasonable charge for our services as consultants. We believe that the expenses should be divided into their natural component parts. On the other hand, if the plan is to be insured, the amount of our commission income and its relationship to the client's outlay will depend upon the exact type of insured plan which is utilized. In any event, commission rates as set by the insurance companies, subject to the approval of the various State regulatory bodies, are intended to cover the *normal services* of an agent or broker for his sales and service work. Neither the insurance companies nor the various State Insurance Departments ever contemplated, when commission scales were fixed, that a complete consulting service, in addition to the regular responsibilities, would be provided within the commission structure. Over the years, we have learned this fact the hard way and are satisfied that our present system, which has been in effect for some years, is the only practical one.

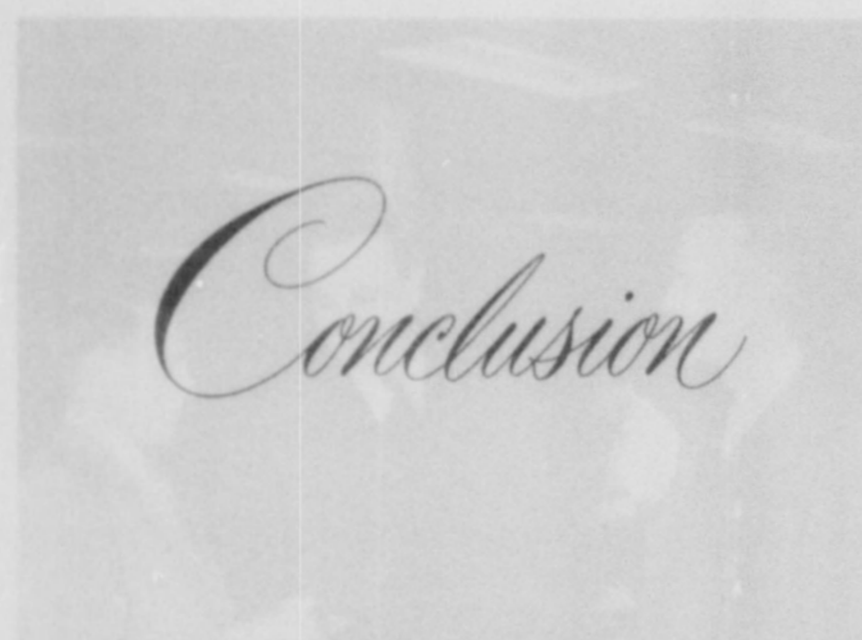
For our services as administrators, we normally charge a moderate fee to cover our consulting and actuarial work on uninsured plans. But, in the case of plans underwritten by insurance companies, we usually find that the commissions regularly payable to us as brokers will cover such services. However, when dealing with a few types of insured plans which require all of the services of a consulting actuary as well as the regular brokerage services, the commission rates are so low that they often provide us with less average income than the actuarial fees would produce if the case were not insured. In such a case, we keep a comparative record of our commission income and of the fair value of our services so we can discuss with our client the advisability of charging a modest additional fee each year after we begin to run in the red.

Our work as consultants with respect to existing plans is so varied that firm rules regarding our compensation have been proven impracticable. The scope of our work in a given case must be weighed against the likelihood of a permanent association with the client before a mutually satisfactory arrangement can be developed.

It must be obvious to any practical businessman that the very nature of our work precludes the use of an inflexible formula for determining fees. Our total charges depend on many factors, including the size of the case, the scope of the required studies, the extent of collective bargaining problems. Since no two cases involve the same problems, our general rule must be altered to suit each situation as it arises.

SHOP TALK. At The Electric Auto-Lite Company, Toledo, Ostheimer and Company's Arthur M. Bremer *(left)*, and Richard W. Baker *(right)*, clear several points with Harry G. Call, Electric Auto-Lite vice president.

Conclusion



We are extremely proud of our clientele here at Ostbeimer and Company. And well we should be. We serve many fine companies. To illustrate the scope of our business, we show on the facing page some of the clients in our imposing list, selected for diversification of industry, size and location.

We have been able to do more for our clients than just keep them satisfied. Indeed, many of them are enthusiastic about our work for them. There are many complimentary letters in our files.

For example, there is one from the Chairman of the Finance Committee, Chrysler Corporation. He wrote us in 1941: "I am really impressed with the skill and ability with which you have analyzed our retirement annuity situation. Please accept my compliments."

The Chairman of the Board, Talon, Inc. wrote us in 1944: "I want to convey to you our thanks and our appreciation for a job very well done. Not only have your assistance and leadership been satisfactory but we believe that you gave us and our problems just as much attention as though you had been directly interested in Talon and had our interests really at heart. Working with you has been pleasant because you know your business and carry on in a genial way. Were we to undertake a like job tomorrow, we would call on you forthwith."

The President of Ditto, Incorporated, wrote us in 1951: "I want to thank you for the heroic work you did for us in this connection. It was a long job on which you put in a good deal of time and I confess that there were moments when I wondered if we would come up with anything satisfactory. With the limitations of permissible costs on the one hand, and something like desirable benefits on the other, I think that a reasonably satisfactory program has been worked out. It is difficult in these days to combat the effects of inflation, when it comes to retirement pay, but all things considered, we have a plan with which we can be reasonably satisfied. Now that the work is behind us, I want you to know how much I appreciate your contribution to the end result."

AMOMG OSTHEIMER AND COMPANY CLIENTS

Automobile Manufacturers Association, Detroit, Mich.
Badger Manufacturing Company, Cambridge, Mass.
A. M. Byers Company, Pittsburgh, Pa.
The Chicago Corporation, Chicago, Ill.
Chrysler Corporation, Detroit, Mich.
Citizens Utilities Company, Greenwich, Conn.
The Denney Tag Company, West Chester, Pa.
Ditto, Incorporated, Chicago, Ill.
Downingtown Paper Company, Downingtown, Pa.
The Electric Auto-Lite Company, Toledo, Ohio
S. M. Flickinger Co., Inc., Buffalo, N.Y.
Ford Motor Company of Canada Limited, Windsor, Ont.
L. Grossman Sons, Inc., Quincy, Mass.
Hagan Corporation, Pittsburgh, Pa.
Harbison's Dairies, Inc., Philadelphia, Pa.
Joseph Horne Co., Pittsburgh, Pa.
International Resistance Company, Philadelphia, Pa.
Le Roi Company, Milwaukee, Wis.
Lukens Steel Company, Coatesville, Pa.
Manufacturers & Traders Trust Co., Buffalo, N.Y.
Middle Atlantic Lumbermens Assn., Inc., Philadelphia, Pa.
National Refractories Company, Inc., Philadelphia, Pa.
New York Water Service Corporation, New York, N.Y.
Pittsburgh-Des Moines Company, Pittsburgh, Pa.
Thos. D. Richardson Co., Philadelphia, Pa.
John A. Roebling's Sons Company, Trenton, N.J.
The Rust Engineering Company, Pittsburgh, Pa.
Shenango Pottery Company, New Castle, Pa.
Square D Company, Detroit, Mich.
Talon, Inc., Meadville, Pa.
Towle Manufacturing Company, Newburyport, Mass.
Alan Wood Steel Company, Conshohocken, Pa.
Allen B. Wrisley Company, Chicago, Ill.

Upon request, we shall furnish the names and addresses of the individuals to whom queries regarding our work may be addressed at any one or more of these companies. Also, upon request, we shall gladly furnish similar information regarding our other clients in a given area.

AFFILIATED WITH THE AMERICAN FEDERATION OF LABOR

INTERNATIONAL OFFICE
U.A.W.—A.F. OF L. BUILDING ☐
429 WEST MICHIGAN ST.
MILWAUKEE 3, WISCONSIN
PHONE DALY 8-0814

ADDRESS REPLY TO
OFFICE CHECKED
☒

JOHN C. NICHOLS
U.A.W.—A.F. OF L.
☐ GROUP INSURANCE SERVICE
OFFICE
1424 LAKE DRIVE, S. E.
PHONE GL-45600
GRAND RAPIDS, MICH.

March 10, 1954

Mr. Dave Beck, Thirteenth Vice President
American Federation of Labor
100 Indiana Avenue N.W.
Washington, D.C.

Dear Sir and Brother:

We have released a booklet, "A Reference Guide to Local Unions for Basic Pension Benefits". This booklet is receiving a great deal of attention. We have had a number of rwquests from pension specialists, ard the Spencer Associates in Chicago have printed it in its entirety in their "Employee Benefit Review - Research Reports".

I thought possibly you might be interested in having a copy. If you would care to do so, we should appreciate your comment as to whether, or not, you think this does the job that needs to be done.

Nelson Cruikshank is very much interested, and we have forwarded him a number of additional copies.

Sincerely and fraternally yours,

John C. Nichols

John C. Nichols, Director
Insurance and Pension Departments
UAW-AFL

JCN/gs
encl.

ADMINISTRATIVE FILE
Health + Welfare
X
X

LAW OFFICES
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F. NASON O'HARA
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516 BALBOA BUILDING
SAN FRANCISCO 5
DOUGLAS 2-0726

March 3rd, 1954

PERSONAL

Daar Mr. Beck:

Enclosed please find our report concerning the handling of Health and Welfare Plans and ultimately Pensions about which we spoke to you in Miami.

We have divided our report into two parts. First, our proposed solution and, second, a discussion of our proposed solution.

Our proposed solution may be seen and checked by anyone. Our discussion, because of the very nature of tne subject matter, is for yourself and those in whom you repose confidence.

With best personal wishes, I am,

Very truly yours,

P H McCarthy Jr.

P. H. McCARTHY, JR.

PHM/ac

Enclosures

Mr. Dave Back
General President
International Brotherhood of Teamsters,
Chauffeurs, Warehousemen and Helpers of America
100 Indiana Avenue N.W., WASHINGTON 1, D.C.

PROPOSED SOLUTION OF PROBLEMS ARISING FROM
THE UNCONTROLLED CREATION AND OPERATION OF
HEALTH AND WELFARE PLANS AND PENSIONS

That a business stock corporation be set up to administer Health and Welfare Plans and Pensions, to provide expert advice concerning all phases of Health and Welfare Plans and Pensions, insured and self-insured, to provide expert advice concerning the investment of Health and Welfare Plans and Pension funds, all such funds if self-insured or the funds in excess of premium requirements and expenses if insured, and to act as an Insurance Broker.

Such a corporation would not be subject to the Banking laws since it would not accept deposits nor would it be an Insurance Company, since it would not cover any risk. It would, to the extent it engaged in the insurance brokerage business, be subject to those laws governing insurance brokers.

Such a corporation could act as an insurance broker in many states, provided its responsible managing officer is a licensed broker and in many states he may by action of the Board of Directors be permitted to carry on his own insurance brokerage business.

DISCUSSION OF PROPOSED SOLUTION OF PROBLEMS ARISING FROM THE UNCONTROLLED CREATION AND OPERATION OF HEALTH AND WELFARE PLANS AND PENSIONS

We recognize that since the passage of the Taft-Hartley Act it is presently impossible to develop a national organization to handle Health and Welfare Plans and Pensions similar to that set up within the framework of the Upholsterers International Union.

We recognize also that since the passage of the Taft-Hartley Act the administration of all Health and Welfare Plans must be through a Board of Trustees with equal Union and management representation.

We recognize that it would not be impossible to set up a few trusts national in scope, each covering a separate industry. However, it seems clear to us that national collective bargaining agreements must precede rather than follow the creation of such trusts. In this respect we note the suggestion of one court that each individual employer may be entitled to a trustee. We think this position is erroneous, however, since such trusts must be set up by collective bargaining a limitation of such trust by judicial decision to the appropriate bargaining unit is highly probable.

Experience has shown that while the various Boards of

Trustees cannot be compelled as a matter of law to have Union administration of a plan or one plan or a group of approved plans from which the parties or the Trustees may choose such results can be and have been achieved by Unions in the field of collective bargaining.

ADMINISTRATION

At the present time the administration of Teamster Health and Welfare Plans is on a Joint Council and Local Union level.

Such control as may be exercised either at the Joint Council, Regional Conference, National Conference or International level must be and is being exercised by and through internal union procedures, pressures and politics.

The first question, therefore, is whether the solution, under the present restrictive legislation, lies within the framework and structure of the International itself, with control over only one-half the Board of Trustees, i.e., the Union appointed trustees, or through a separate organization controlled by the International Union.

Whatever form of control that may be attempted within the framework and structure of the International union must, of necessity, at most be indirect, and primarily remedial in nature unless the International becomes a real party to each and every collective bargaining agreement.

This, under present legislation, would impose on the International a direct legal liability for damages for acts of Local officers and members out of all proportion to the benefits to be obtained and would require an administrative staff, paid for out of the International Treasury likewise out of all proportion to the benefits to be obtained.

It therefore seems to us that the ideal solution, under present laws, lies in the creation by the International Union of a separate, subsidiary organization, a business stock corporation controlled by the International Union with which the Local Unions and the Boards of Trustees and Employer Associations can enter into contractual relations.

The Local Unions could contract for advice as could Employer Associations but, what is of most importance, the Boards of Trustees could contract with the Corporate subsidiary to administer their Health and Welfare Plans and Pensions.

Thus, for all practical purposes, the necessity for indirect control through Union procedures, pressures and politics would end when a Board of Trustees contracted with the subsidiary corporation to administer a Plan.

Once the contract was entered into the International would through its corporate subsidiary have direct, immediate and positive control; control which could be exercised unimpeded.

It is possible that International pressure may be

necessary in some cases to obtain the necessary co-operation of a recalcitrant local union and it is conceivable that certain constitutional modifications might facilitate the application of such pressure. However, normally such pressure would need to be exerted only once, i.e. to obtain the contract to administer in the first instance.

Then too, there is the possibility, in certain cases, that economic action may be necessary before employer groups would appoint Employer Trustees favorably disposed to entering into contractual relations with the subsidiary corporate administrator.

These problems, however, are not insoluble - they are practical problems, susceptible over a period of time of practical solutions. Experience has demonstrated that such employer opposition to the exercise of a substantial degree of control at the Joint Council level has from time to time existed but that it can be and has been overcome as a practical matter.

Experience has also shown that the co-operation of recalcitrant Local Unions and even Joint Councils can as a practical matter be obtained.

There is no reason to believe that similar results cannot be obtained nationally although it would take time.

The present unsatisfactory condition has been seven (7) years in the making; it cannot reasonably be expected to be cleaned up and regularized overnight.

The extent of control that could be exercised by the International Union depends on the manner in which such a

corporation is set up.

Such a corporation could be owned 100% by the International Union, in which event the International Union's control would be complete and absolute.

It could be owned 51% by the International Union and 49% by subordinate bodies, in which event, while the International's control would be complete, it would not be absolute since the minority stock holders would be entitled to certain rights.

It could be owned 50% by the International and 50% by a subordinate body or bodies and by properly setting up the By-Laws and the first Board of Directors control could be retained by the International as a practical matter, however, such control would not be complete or absolute since the rights of the holders of 50% of the stock could be exercised in such fashion as to exert substantial pressure on the International.

It could be owned by the International and subordinate bodies with the International holding less than 50% of the stock and the International could retain control at least to the extent of being able to exercise a veto power.

It could be owned entirely by subordinate organizations or more than one corporation could be set up each owned by a subordinate organisation and the International could retain control at least to the extent of being able to exercise veto power.

This brings us to the policy question. Looking at this

problem from the standpoint of the International Union it is clear that sole ownership by the International Union is the ideal solution. Whether at the present time, in view of the existing vested interests of subordinate bodies of the International Union such an ideal solution is practical, is a matter upon which we have insufficient data to even hazard an opinion.

That there would be some opposition within the International, particularly at the start, is apparent from the general discussions on Health and Welfare policies which took place at Miami Beach. How much of the opposition is but "sound and fury" and how much is substantiel it is impossible for us at this time to accurately estimate.

However, this we believe to be true.

A sound, efficient corporate administration of various Teamsters' Health and Welfare Plans and Pensions would be its own answer to those who may, because of their present vested interest, be inclined at the present time to take a short term view of the matter.

To conclude this phase of our discussion:

Since direct International control of Health and Welfare Plans is legally and practically impossible the best method of exercising such control at the present time is through a subsidiary corporate administrator controlled by the International.

Thus, the Union procedures, processes and politics

normally need be used but once, i.e., to obtain the contract between the corporate administrators and the Board of Trustees. Thereafter, if the corporate administrator does a job the contract will, without doubt, be extended as will the length of the term of succeeding contracts and soon what was once thought novel will be habitual.

We should not fail to point out that the corporate profits, after a proper surplus is accumulated, would revert to the membership either indirectly as dividends to the International or directly by reducing the cost of administration and thereby increasing the assets of the funds being administered.

EXPERT ADVICE

Such a business corporation need not limit its activities to the collection of employer payments and the processing of claims which is the essence of administration, as we have mentioned it could also contract to provide expert advice and assistance in all matters pertaining to Health and Welfare Plans and Pensions.

The subsidiary corporation could contract with a Local Union or an Employer association, or both, to advise throughout the original negotiations. Or it could supply such advice and assistance at no cost to the Union or the Employer association in the hope of obtaining the contract to administer the Health and Welfare Plan or Pension, or even the brokerage.

It could and should in addition to contracting for ad-

ministration, contract to provide expert advice and assistance to the Board of Trustees. Substantial sums are now being paid private persons and companies by Teamster affiliates for such expert advice and assistance.

Under the proposed subsidiary corporate set up the cost to each trust would be nominal, however, the income to the subsidiary corporation should be such as to permit it to employ the very best qualified experts.

The employment of such experts is not a proper charge against the International, its treasury or its members. It is a proper charge against each Trust Fund.

In addition, if the International controlled the corporation it could directly implement its policy through these very same experts. And this could be done without creating any unnecessary problems within the International itself.

We have referred to expert financial and investment advice which could also be provided.

The ability to conduct a successful strike has been seriously impaired by the growth of conditional sales and time payment plans.

Other things being equal, stability of employment, etc., the degree of impairment is in direct proportion to the wage structure. Where a high wage structure exists more purchases are made on time simply because merchants are willing to extend more credit.

Many Health and Welfare Plans today are negotiated on

the basis of a flat sum per month, a sum calculated to provide sufficient money to pay the cost of the premium, administration and Trust Fund expenses.

Under most of these plans an employee's coverage ceases the end of the month following the month in which his employment ceases.

Thus, there is added to the evil effect of time plan purchases the knowledge of the employee that his and,in many cases, his family's doctor and hospital bills will soon be his own.

There are two other methods by which the employer's payments into a Health and Welfare Plan or Pension may be computed.

One is based on a stipulated amount of money for each hour worked by an employee. The other is based on a stipulated amount of money for a stipulated amount of production, i.e. tons, barrels, etc.

Under either system the Trust Fund has, or should have, money to invest over and above that required for premium payments, administration and operating costs.

Under either system a reserve can and should be built up to provide protection for the employee and his family during periods of unemployment whether by strike or otherwise as well as to provide protection during periods of partial employment.

The skilled investment of such funds would provide a greater income for each such fund and could be used to pro-

vide coverage for a longer period of time or broader coverage as the circumstances in each case might indicate.

In any event, the Subsidiary Corporate Administrator, for a fee, could see to the proper investment of such funds so as to produce the highest yield with the least risk.

BROKER

Such a corporation could act as a Broker.

That the responsible managing officer of its Insurance Brokerage Business would have to be a licensed broker is true. However, he would be on salary and his death or incapacity would not sever the relationship between the Corporation and its Trust Fund clients.

Once again the very best in the Insurance Brokerage field could be hired at a nominal cost to each Trust Fund.

CONCLUSION

The creation of a business stock corporation controlled by the International, to the extent such control is desirable, would give the International the necessary machinery to effectuate its policies in the field of Health and Welfare Plans and Pensions.

The International could through such a corporate subsidiary participate in every phase of The Health and Welfare Plans and Pensions negotiated by its subordinate organizations from the inception of negotiations to the payment of benefits. It could provide the very best expert advice and assistance obtainable at the lowest possible cost. It could do a job for its entire membership.

From a public relations standpoint, since the International would be, ideally, the sole stockholder, it could name a Board of Directors of outstanding ability, one that would command the respect and admiration of Industry, and Labor, the Public and the Government in all its departments, and it could do so without losing control. It could obtain the services of outstanding experts in insurance, medicine and finance, paid for as they should be by the Boards of Trustees and not by the International out of its dues structure. The field is almost without limit.

While this discussion is lengthier that we would like to have it, we have nevertheless merely outlined the picture. We have not attempted to answer the many questions or objections that this outline may suggest although we know that there is a satisfactory answer to each question and objection.

In the event you have any questions or would care for a more detailed explanation of any point we will be pleased to answer or explain.

Very truly yours,

P. H. McCarthy, Jr.

P. H. McCARTHY, JR.

ADMINISTRATIVE FILE
Health & Welfare
X Lobe, Ludwig
X

FRIEDMAN, LOBE & BLOCK
CERTIFIED PUBLIC ACCOUNTANTS
SUITE 610 JONES BUILDING
SEATTLE 1, WASHINGTON
TELEPHONE ELIOT 2412

S. E. FRIEDMAN, C. P. A.
LUDWIG LOBE, C. P. A.
ROBERT L. BLOCK, C. P. A.

February 27, 1954

Mr. Dave Beck, President
International Brotherhood of Teamsters
100 Indiana Avenue, N.W.
Washington, D. C.

Re: Welfare Funds

Dear Mr. Beck:

I do not know whether I gave you a copy of the enclosed article before your departure in January.

This is a copy of the original, with the exception that I have included certain additional procedures, which we believe necessary in order to give an unconditional certificate to the Trustees, after having made an audit of the respective Trust Funds.

Needless to say, I have written this article on the basis of my experience in Seattle, and after having convinced myself that the office here seems to have put in all safeguards necessary. I have had several opportunities to examine other Welfare Funds, in and outside of Seattle, and to check reports submitted by other auditors. All of these experiences, impressions and information are reflected in the enclosed article.

As far as the audit is concerned, we have put into effect all general procedures recommended by the American Institute of Accountants, of which we are members.

If you have any questions with regard to our procedures, please do not hesitate to call on me.

With best regards, I remain,

Sincerely yours,

Ludwig Lobe
LUDWIG LOBE

LL:MC

ACCOUNTING AND AUDITING PROCEDURES OF WELFARE FUNDS

Article and speech prepared by Ludwig Lobe,
Certified Public Accountant - Partner of
Friedman, Lobe & Block
Suite 613 Jones Building
Seattle 1, Washington

One of the recent features of labor contracts has been the establishment of "Health and Welfare Plans". From a small beginning this program of medical and economic aid has branched out into many industries. This article is based on actual audits made by the above, and on reviews of audits made by other accountants.

Whenever labor contracts are negotiated between employers or employer groups on one hand, and labor unions on the other hand, a provision is incorporated into the contract concerning a Health and Welfare Plan providing for contributions by the employer to such Welfare Fund. These contributions have to be used to purchase accident, hospital, sickness, life, and time loss insurance for the benefit of the employees covered, and to a very small degree to administer each fund. Each employer - employee group establishes a separate fund under a trusteeship of two or more trustees from each of the employers and the union serving without pay. The trustees have full control of the funds accumulated, their administration, and the direction of the broader activities of the trusts. Each fund's trustees appoint an administrator who administers the Welfare Office in cooperation with a Welfare and an Accounting Committee. Under most insurance policies an employee can get the following maximum benefits, among others: paid up life insurance, accident and sickness weekly benefit, hospital (to 70 days), surgeon's fees, maternity, doctor's treatments, laboratory and X-ray examination, additional accident expense, poliomyelitis. The dependents of members of the Health and Welfare Plan will receive about 80 per cent of the benefits payable to members, except that benefits for doctors' treatments, life insurance and weekly benefits are not available to dependents. To facilitate the operation of this plan, offices have been set up in various cities. The duties of these offices are usually:

(1) To collect the employers' contributions and to remit the premiums to the underwriting insurance companies

(2) To keep all records with regard to such collections, payments and coverage

(3) To settle all claims, except death benefits

The offices thus serve as agents of the insurance carriers with respect to collecting of premiums and paying of claims. The appointed administrator of the Health and Welfare Funds is the supervisor of the office, and a comptroller is in charge of the accounting operations. The heads of the Accounting and Claims sections, with their respective staffs, report to the Administrator. In some operations, banks have been appointed to receive collections from employers and make payments to insurance carriers and administration offices. In this case, the duties are basically limited to points 2 and 3 above.

When an employer transmits his check for his employees to the Welfare Funds, he prepares a "transmittal form" which is mailed to him by the office every month. On this form he indicates the names and numbers of employees to be covered and any changes during the month. To be eligible for insurance coverage, an employee must have worked eighty (80) hours or more for any particular firm in the preceding month. If these conditions are fulfilled, he must be included in the report. On the other hand, employees working less than eighty (80) hours need not be reported.

Some funds, based on irregular working time, are set up on a straight hourly basis. This is the case when the payments by the employers are made on an hourly, rather than monthly, basis.

The employer also is required to give the names of those employees whose coverage was terminated. In addition, an "enrollment card" must be submitted for all new employees listed.

The employer indicates the total number of employees covered on his report and attaches a check for the proper amount. If adjustments are necessary, such adjustments are also made on the same form. On funds based on hours worked only, the names, social security numbers and number of hours worked are shown.

In the office the mail is opened and date stamped by persons not otherwise connected with the processing of the receipts. The mail is then sorted into two categories:

1. Incoming check receipts with their attached transmittal form
2. Claims

HIGH-LIGHTS OF ACCOUNTING OF TRUST FUNDS

The Accounting Department receives the transmittal forms and checks for the respective funds. The transmittal forms are compared with the employer's ledger card to determine the months for which the payment is made. Upon completion of this step, the forms are marked with the month and number of employees covered and a control number is then placed on both the check and the transmittal forms.

The posting to the cash receipts journal is done by machine, and, simultaneously, the employer's ledger cards are posted and the bank deposit slips prepared. The control number previously stamped on the check appears in the cash receipts journal, the employer's ledger card and on the bank deposit slip; this provides for cross-reference and internal control. The machine also posts the month for which the premium applies and the number of members covered to the cash receipts journal and to the employer's ledger card. This procedure facilitates the determination of the premiums due to the insurance company which is computed by taking the total of members for which premiums were received during any given month multiplied by the premium rate.

The funds working on the hourly system also have an employees' card file. These cards contain the following information:

> Name of employer
> Posting reference number
> Twelve columns indicating the 12 months
>   of the year into which the respective
>   hours worked are entered.

When delinquent payments are involved, a running record listing the control numbers is prepared showing the delinquent payments by the months to which they apply. Thus, the total number of employees for which premiums were received less the delinquent remittances represent the payments to the insurance companies covering the current month's premiums.

Most of the receipts are checks received through the mail, made payable to the respective Health and Welfare Funds. However, a few receipts are in currency. This may happen whenever a member of the union pays his premiums directly to the Health and Welfare Fund for three months after leaving the employ of a firm which was or is a participant of the fund. In case of cash, three copies of a receipt are made out; one copy is given to the payee, the second one is attached to the transmittal form (and processed as if it were a check) and the third copy remains in the receipt book. When the deposit is ready for banking, the actual cash is then substituted for the receipt. The totals of the receipts journal are summarized and posted to the General Ledger of the fund as follows:

Debit : Bank
Credit: Fund (Premium Receipts)
or Prepayments

A "prepayment" is set up when an employer pays premiums in advance. In the proper month such a prepayment is journalized into premium receipts by an entry in the General Journal as follows:

Debit : Prepayments
Credit: Fund (Premium Receipts)

It was described above how the Welfare Office determines the amount of premium payable. The accounting entry involved in this procedure is made in the General Journal, accruing the premium payable to the insurance carrier:

Debit : Fund
Credit: Premiums Payable

When the premiums are paid the following entry is made in the Cash Disbursement Journal:

Debit : Premiums Payable
Credit: Bank

There are practically no other disbursements from the Health and Welfare Funds, since most expenses are paid from an Administrative Fund.
There are certain additional procedures for funds on hourly basis as to month-end controls. Time and space will not allow us to go into all phases of such accounting.

CLAIMS

To facilitate the settlement of claims, an "Eligibility File" is set up. As mentioned above, whenever a new employee is reported by an employer (the initial report of an employer contains all "new" employees) an enrollment card has to be submitted with the transmittal form. This card is then checked and if found correct, it is made part of the Eligibility File in the Welfare Office. On the other hand, if a termination is reported on the transmittal form, the enrollment card is removed from that file.

An employee who had a disability must submit a "Settlement of Claim" form. This form is filled out by (1) the employee, (2) the employer (or the Welfare Office) and (3) the attending physician, and all the pertinent bills must be attached. When the Welfare Office receives the claim, it is checked for eligibility of the claimant and for accuracy of the information submitted. If the claim is found to be in order, the Welfare Office makes out a draft on the insurance company in settlement of the claim based upon the rates on the benefit schedule. This settlement procedure is followed in all cases, except when death benefits are involved which are paid directly by the insurance carriers. All claims are generally paid within three days after the statement of claims has been submitted to the Welfare Office, and it is the practice not to pro-rate any of the benefits.

A claim audit has been instituted to test check claims paid. The main procedures are:

> Mailing of confirmations, letters to physicians, hospital, employees and employers, and
> Photostatic copies of drafts paid by the insurance carrier.

Based on answers received, a comparison with the original records is made and discrepancies are reported.

ADMINISTRATIVE FUND

An "Administrative Fund" is set up to handle the operation expenses of the Welfare Office. The insurance companies remit to this Administrative Fund a specific percentage amount of the premiums they receive from each of the Health and Welfare Funds.

AUDITING

The Accountant retained to audit these Welfare Funds has a special responsibility. Although he is engaged by the Trustees of the respective funds, his responsibility goes much further. The employees and the unions look to the auditor to make sure that the moneys which are collected for their benefit are properly accounted for. The employers, on the other hand, look to the auditor to establish as certain that the contributions remitted by them are used for the purposes enumerated in the labor contracts. The insurance companies rely on the auditor to ascertain that the proper premiums are paid to them. Finally, the general public is interested in these audits to make sure that these Health and Welfare Funds are properly administered, for public confidence in the handling of these funds will be necessary to establish more Health and Welfare Funds.

The auditor, engaged by the Trustees of the Fund, is concerned with the audit of the premium receipts and remittances to the insurance companies. The following is a typical audit program for a Welfare Fund:

A. CASH RECEIPTS

1. Check additions, footing and cross footings in the cash receipts journal, watch for corrections and alterations.
2. Reconcile the total cash receipts per cash receipts journal with total deposits as shown on bank statement.
3. Examine for any irregularities.
4. Verify receipts postings to the respective funds.
5. Test check postings to individual employers ledger cards and reconcile the number of members collected for to the remittals to the insurance companies.
6. Obtain confirmations of payments made by employers, to assure auditor that all receipts are accounted for.
7. Reconcile and correct any differences discovered through the above confirmation.
8. Test check some transmittal forms to cash receipts journal.
9. Check postings of amounts from employers' transmittals to employers' cards.
10. Funds on hourly basis need the additional examination of postings of hours from employers' letters of transmittal to individual employees' cards, through a sizable test check.

11. From the employees' cards the number of members covered for the entire period under review is readded and checked to reports of the insurance carriers.

B. CASH DISBURSEMENTS

1. Check footings and cross-footings in cash-disbursements journal.

2. Reconcile disbursements with bank statements.

3. Examine the cancelled checks for proper signatures and endorsements.

4. Obtain confirmations of payments to insurance carriers.

5. Examine the vouchers, if any.

C. OTHER AUDITING PROCEDURES

1. Obtain confirmations of the bank balances directly from the depository and reconcile the bank account.

2. Examine the minutes of the Board of Trustees of the fund under review.

3. Inspect the insurance policies in Welfare Office.

4. Examine the postings to the General Ledger.

Through the confirmation of the payments made by the employers, the auditor tries to establish the accuracy of the following information:

1. The payments made by the employer to the particular fund during the fiscal year.

2. The date of the last payment to the fund indicating the month of employment this payment was based on. (This is usually the preceding month, unless the employer is delinquent in his payments).

The employer is informed of his payments to the Health and Welfare Fund by an adding machine tape attached to the confirmation request. This tape lists all payments to the fund during the fiscal year. A duplicate of the tape is attached to the copy of the confirmation in the auditor's file. Since the information had been taken off the individual employer's ledger cards, the total of these tapes should agree with the total of the cash receipts in the Cash Receipts Journal. Any differences between the "subsidiary" and "original" records should be traced down and adjusted in the course of the audit.

The information as to the last date of payment to the fund with the designation of the month of employment it applies to, is taken from the last entry on the employers ledger card. This information is especially

important when the end of the fiscal year and the time of the audit are several months apart.

This auditor's experience with employers' confirmations has been very good. The replies received within ten days after the mailing of the confirmation blanks came from more than 75% of the firms to whom requests were mailed and covered about 85% of the dollar amounts involved. The exception taken were very few and very minor and all could be explained to the auditor's satisfaction. In less than one per cent of the cases was it necessary to correspond with the employers about the confirmations. The replies received were representative enough to establish a pattern of correctness of the records of the respective Health and Welfare Funds. Had this not been the case, it would have been necessary to send out second requests. When the employers are circularized several months after the end of the fiscal year, many of them, in addition to checking off the amounts on the tapes, list the payments made since the close of the fiscal year. This is not the case whenever confirmation requests are mailed a few days after the close of the fiscal year.

The confirmations with the insurance companies contain the following information, the correctness of which the auditor wishes to establish:

1. The policy number and a statement that this policy is now in full force and effect.

2. A list of premium payments made and the number of employees covered with each payment during the fiscal year under review.

3. The amount of premiums payable at the end of the fiscal year and number of employees this covers.

4. The amount, if any, of the experience rating refunds, credits, and dividends due to the fund at the end of the fiscal year.

The information for this is compiled from the premium reports to the insurance companies, which were verified against the information in the cash disbursement journal. Any discrepancies have to be traced and reconciled.

By confirmation the auditor has now established the number of employees covered (by dividing the total receipts during the fiscal year by the

rate of the premium). He can also, by confirmation, establish the number of employees reported to the insurance companies. If the two amounts so confirmed, do not agree, the auditor has to reconcile the discrepancy, and make necessary adjustments.

In order to satisfy himself with the correctness of the books, the auditor should examine the general ledger accounts and trace a representative number of entries to their original sources. He should also examine all the entries in the General Journal to establish their correctness. He also has to be concerned with possible lapping between funds. It is the practice of some offices to have different fiscal years for the various Health and Welfare Funds. These are audited at different times, and sometimes by different auditors.

It is conceivable that wherever the internal control is not efficient, lapping between the various funds might be tried, to the detriment of the office. It may, therefore, be advisable to put all funds in the office on the same business year, and to make regular monthly or quarterly audits, instead of yearly audits.

The audit of the "Administrative Fund" presents no particular problem. Its operations are like those of any commercial enterprise and it can be audited as such. The receipts of the "Administrative Fund" are only from very few sources, and it is relatively easy to obtain a confirmation of these receipts from the payees.

The audit of the Health and Welfare Funds is somewhat different from any other audit; because of the particular nature of these funds, the auditor must take special precautions and at all times keep in mind that he has a public responsibility when he is retained to examine the records of Health and Welfare Funds, and that great weight will be given to his opinion. Consequently, nothing but a thorough and complete job will do.

(The End)

ADMINISTRATIVE FILE Health and Welfare

GENERAL EXECUTIVE BOARD MEETING
Miami, February, 1954

Subject: Welfare Programs - Martin E. Segal warning to insurance industry.

Action Taken:

file

Date:

Mr. Segal is a partner of Martin E. Segal & Company, consultants in over 450 welfare programs throughout the United States. These welfare programs cover over 2,000,000 workers and their families throughout the country and include the Chicago District Council of Carpenters Welfare Fund, Sheet Metal Workers Welfare Fund of Chicago, Bakery and Confectionary Union and Industry National Welfare Fund, National Maritime Welfare Fund, Laborers Health and Welfare Trust Fund for Northern California, Milk Industry - Drivers and Dairy Employees Unions Welfare Fund, and others.

MARTIN E. SEGAL & COMPANY
Consultants
GROUP WELFARE AND PENSION PROGRAMS
55 EAST 34th STREET NEW YORK 16 N.Y. MURRAY HILL 4-3300

MARTIN E. SEGAL
HENRY W. WENNING

FOR RELEASE: After 10 AM, Wednesday.
February 10, 1954.

WELFARE PROGRAM EXPERT BLAMES SOME INSURANCE COMPANIES AS RESPONSIBLE FOR ABUSES IN LABOR-MANAGEMENT INSURANCE PLANS

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Martin E. Segal Warns That Unless Insurance Industry 'Polices Itself', Restrictive Legislation is Inevitable

* * * * *

CHICAGO, Ill. -- A nationally known expert in the multi-billion dollar field of labor-management welfare programs today (Wednesday) charged that State and Federal investigation of these programs had disclosed abuses which were as much the fault of the insurance companies and brokers involved as they were of union and employer representatives. He warned that restrictive legislation would inevitably follow unless the insurance industry adopted a code of ethics and undertook a self-policing job.

Addressing the closing session of the three-day conference of the Health and Accident Underwriters Conference at the Drake Hotel, Martin E. Segal, partner in the New York welfare consultant firm bearing his name, declared:

--more--

"If all insurance companies maintained decent standards with respect to the acquisition of business, the abuses which have received publicity would be well on their way to being eliminated."

Mr. Segal, whose firm is consultant to more than 450 welfare programs in the United States covering more than 2 million workers and their families, pointed out, however, that "there are thousands of good welfare funds in existence and these are being administered on a basis which truly serves the best interest of the employees, their families, the industry and the United States."

He cited excessive commissions, needless service fees, so-called "administration fees", switching of insurance carriers "for the sole purpose of getting as agent or broker some new commissions or making room for a so-called 'consultant'" as examples of practices which rob the insured worker of wider benefits for himself and his family.

"It is up to the insurance industry," he said, "to help 'clean house.' A code of ethics should be developed and anyone violating that code should be prevented from participating in the conduct of welfare plans -- just as the Bar Associations throw out those of their members who violate the ethics of that distinguished profession."

Extracts from Mr. Segal's speech follow:

This brings me to the third point I wanted to discuss with you this morning - the investigations which have been undertaken by various State and Federal groups.

As a result of these investigations and the general publicity which has come with them, it appears that some individuals have used the welfare funds for their own private gain rather than for the benefit of the workers and their families.

It would be a mistake, I think, if the welfare funds which are in disrepute were permitted to cast a shadowy doubt on the thousands of collectively bargained welfare funds which are honestly administered by employer and union trustees for the true benefit of the employees and their families.

--more--

In the State of New York, a study is now being made of the more than 600 welfare funds in effect.

As a resident of that State, I am proud of the thoughtful approach which has been taken by the Superintendent of Insurance, the Honorable Alfred J. Bohlinger.

Commissioner Bohlinger's handling of this problem, as well as others has indicated real sensitivity and appreciation of what is good for the public as well as the insurance industry.

In the instances where a welfare fund has been wrongly used for the benefit of certain individuals, it is not only the union leader and the employer representative who are at fault. The insurance company and insurance agent or broker involved are also responsible in one way or another.

If all insurance companies maintained decent standards with respect to the acquisition of business the abuses which have received publicity would be well on their way to being eliminated.

I believe that the majority of insurance companies are mindful of their responsibility to the public in this new and important field of welfare funds. Those few insurance companies that are not, are simply closing their eyes to the implications of such practices like their excessive commission payments.

The insurance industry must police itself. If it does not do this effectively there will inevitably be restrictive legislation.

The elimination of excessive commissions, needless service fees and so-called "administration fees' would automatically also eliminate those who are in this field simply to exploit it with a "public be damned" attitude.

Sensible people believe in competition. When competition is ethical, it is stimulating and results in good productive effort. But senseless competition between insurance companies, with no other goal than production records, is pointless and breeds all kinds of ills like lower benefits for higher costs.

Thoughtful leaders in the insurance business know that there should be more emphasis on the quality rather than the volume of new and additional business.

The switching of insurance carriers for the sole purpose of getting an agent or broker some new commissions or making room for a so-called "consultant" is harmful to the insured group, as you know. I believe that there should be penalties invoked against those following these practices of "twisting".

I am sure that all of you here want to help develop proper standards for the acquisition and servicing of trusteed welfare funds. Leaders of industry and labor expect help from those who really understand this complex field.

--more--

It is up to the insurance industry to help "clean house". A code of ethics should be developed and anyone violating that code should be prevented from participating in the conduct of welfare plans - just as Bar Associations throw out those of their members who violate the ethics of that distinguished profession.

While there are some welfare funds that are deliberately mishandled, I don't think we should permit the evils that have developed in those funds to dim our view of the great progress that has been made by many, many other welfare funds.

We must keep a sense of real perspective, and realize that there are thousands of good welfare funds in existence; and these are being administered on a basis which truly serves the best interest of the employees, their families and the industry, and the country.

As Americans, we can be proud of the fact that our democratic form of government has enabled management and labor to meet on this common ground and to build a unique structure which protects the sick and the hurt, the orphaned children and the destitute widow.

I know hundreds of large and small employers who have hailed the achievements of many welfare funds as a practical means of improving labor-management relations and furnishing good insurance security and protection at reduced cost.

And what a remarkable achievement this welfare fund program is when we see that it has the support of the major political parties, trade union movements, major employers' associations, and industry groups - indeed, virtually every segment of American society.

As a result of these well-managed welfare funds, there are millions of American workers and their families who have protection against the hazards of sickness, hospitalization, medical and surgical care and death. Before these welfare funds were established, many of these same employees had only the bleak prospect of loan sharks or finance companies to look toward. Now that bleak prospect has changed to a self-respecting independence, because of the welfare funds which are now in existence.

Because of the experience of well-managed welfare funds, there is before the American people a greater opportunity for providing more and better insurance protection and security. Employers and unions together, with the cooperation of government where necessary, will continue to take that opportunity to forge an even better life and increased security in the years ahead.

--end--

Mr. Mishi

tt

1/13/54

This bill intro-
duced by Clare
Hoffman 2 days
ago — that you
might want to
talk to Hoffa
about it.

Ginsberg

ADMINISTRATIVE FILE

File

83d CONGRESS
2d Session

H. R. 7116

IN THE HOUSE OF REPRESENTATIVES

January 11, 1954

Mr. Hoffman of Michigan introduced the following bill; which was referred to the Committee on Education and Labor

A BILL

To encourage State supervision of labor union health and welfare funds, to promote the honest administration thereof, and to protect employees and employers from racketeering.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding the provisions of section 6 of the Act of October 15, 1914 (ch. 323, 38 Stat. 731; 15 U.S. C. 17), the establishment, maintenance, and administration of trust funds, established, maintained, or administered by representatives of employees or jointly by representatives of employees and by employers or their representatives, to which an employer or employees make payments or contributions, and all trust funds which are excepted by clause

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83d CONGRESS
2d Session

H. R. 7116

A BILL

To encourage State supervision of labor union health and welfare funds, to promote the honest administration thereof, and to protect employees and employers from racketeering.

By Mr. Hoffman of Michigan

January 11, 1954

Referred to the Committee on Education and Labor

(5) of subsection (c) of section 302, title III, of the Act of June 23, 1947, known as the "Labor Management Relations Act, 1947" (ch. 120, 61 Stat. 157; 29 U. S. C. 186 (c) (5)) from the provisions of said section 302, are included in the term "business of insurance" for the purposes of section 2 of the Act of March 9, 1945 (ch. 20, 59 Stat. 34, as amended by the Act of July 25, 1947; ch. 326, 61 Stat. 448; 15 U. S. C. 1012).

SEC. 2. Section 4 of the Act of March 9, 1945 (ch. 20, 59 Stat. 34, 15 U. S. C. 1014), is hereby amended to read:

"Nothing contained in this Act except the application hereof to trust funds established, maintained, or administered, by representatives of employees or jointly by representatives of employees and by employers or their representatives, to which an employer or employees make payments or contributions, shall be construed to affect in any manner the application to the business of insurance of the Act of July 5, 1935, as amended, known as the National Labor Relations Act, or the Act of June 25, 1938, as amended, known as the Fair Labor Standards Act of 1938, or the Act of June 5, 1920, known as the Merchant Marine Act, 1920."

SEC. 3. Section 6 of the Act of October 15, 1914 (ch. 323, 38 Stat. 731, 15 U. S. C. 17), is hereby amended by adding to the end thereof the following new paragraph:

"Notwithstanding the provisions of the first paragraph of this section, the antitrust laws have application to contracts, combinations, conspiracies, agreements, activities or operations which provide for, relate to, or concern any payment or delivery of, or agreement to pay or deliver, any money or other thing of value, in violation of section 302, title III, of the Act of June 23, 1947, known as the Labor Management Relations Act, 1947 (ch. 120, 61 Stat. 157, 29 U. S. C. 186), other than the maintenance, administration, and operation of a trust fund excepted by section 302 (c) (5) of the Labor Management Relations Act, 1947, or supervised by a State or Territory of the United States or by the District of Columbia."

SEC. 4. The foregoing provisions of this Act shall take effect July 1, 1956.

FOR IMMEDIATE RELEASE

WASHINGTON -- A plea to members of the International Brotherhood of Teamsters to heighten vigilance against infiltration of racketeering elements in local union affairs was made by Teamsters General President Dave Beck in his monthly letter to the nation's 1,400,000 Teamsters.

Mr. Beck singled out extortionists and manipulators of union welfare and insurance programs as the greatest threat to clean unionism.

"We must be alert to guard against those who would attach themselves as leeches on the body of organized labor and take dishonestly to the discredit of organized labor as a whole," he declared.

He further asserted that responsibility for cleaning out racketeers in local unions falls squarely on the leadership of International Unions and their parent organizations.

In accepting that responsibility in behalf of the Teamsters Union, Mr. Beck called for solicitation of "careful government investigationsof the conduct of our affairs," particularly in the welfare plan and insurance fields.

He asked each local to review the experience and business status of participating insurance companies and brokerage agencies; and advised regular CPA audits of claims paymentsand investment of surplus funds.

"Where dishonest administration is suspected," he stated, "the International Union has, and will exercise, authority to investigate every phase of operation."

In his letter Mr. Beck also explained current Teamster organizing activities; announced the opening of a New York City organizing office, and discussed moves taken by the AFL to clean up rackets on the New York-New Jersey waterfronts.

PR5pr-400
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ADMINISTRATIVE FILE ✓
Health & Welfare
x American Pharmaceutical
Association

November 25, 1953

Mr. Robert P. Fischelis, Secretary
American Pharmaceutical Association
2215 Constitution Avenue, Northwest
Washington 7, D. C.

Dear Mr. Fischelis:

Request for Information
Regarding Our Health Plan

In reply to your inquiry in your letter of November 10th, I can inform you that our Health Plan to date makes no provision for supplying Pharmaceutical Services.

If, in the future, there should be a change in this matter, we will be most happy to comply with your request for information.

COPY

Sincerely yours,

Einar O. Mohn
Assistant to the
General President

EOM:br

FROM THE OFFICE OF
DAVE BECK, GENERAL PRESIDENT
INTERNATIONAL BROTHERHOOD OF TEAMSTERS

AMERICAN INSTITUTE OF PHARMACY

HEADQUARTERS OF

American Pharmaceutical Association

ORGANIZED 1852

November 16, 1953

OFFICE OF THE SECRETARY
2215 CONSTITUTION AVE., N. W.
WASHINGTON 7, D. C.

Mr. D. Beck, President,
Teamsters, Chauffers, Warehousemen
and Helpers of America,
International Bro. of A.F.L.,
100 Indiana Ave., N.W.,
Washington 1, D.C.

Dear Mr. Beck:

We are currently making a survey of voluntary health insurance plans with special reference to their provisions for supplying pharmaceutical services. The results of this survey will be used to prepare a comparative table for the guidance of pharmaceutical associations in developing their policies and recommendations with respect to such plans.

If the health plan sponsored by your organization has provisions for supplying pharmaceutical services, we would deeply appreciate having as much information as possible concerning the scope and nature of these services. In addition, it would also be of help to us to have such data as: area served by plan; number of contracting hospitals, if any; enrollment; and duration of care provided.

Of great aid to us would be a specimen copy of your plan, in the event that it contains references to pharmaceutical services.

Any information that you may give us concerning this matter will be greatly appreciated.

Sincerely yours,

R. P. Fischelis

Robert P. Fischelis,
Secretary

P.S. Should you prefer to supply the information requested on a question and answer basis, we would be glad to have you make use of the enclosed questionnaire.

AMERICAN PHARMACEUTICAL ASSOCIATION
2215 Constitution Avenue, N. W.
Washington 7, D. C.

HEALTH PLANS SURVEY

1. Name of plan:

2. Does the plan sponsored by your organization provide for pharmaceutical services?

3. Area served by plan:

4. Number of contracting hospitals (if any):

5. Number of persons enrolled:

6. Duration of care provided:

7. Nature and scope of pharmaceutical services:
(Please describe as fully as possible.)

Signature and title ____________________

Please use opposite side for any remarks.

ADMINISTRATIVE FILE
~~Funds Teamsters Security~~
Health & Welfare
X

September 24, 1953

Mr. Walter H. Briem, Administrator
Teamsters Security Plan
132 Taylor Avenue,
Seattle (9), Washington.

Dear Walt:

My apologies for the long delay in writing and thanking you for the fine material you sent for my files. It is appreciated very much.

The family have now moved from California and we are all together, which makes life much happier for all of us.

Kind regards always,

COPY

Einar O. Mohn, Assistant
to the General President

EOM:b

FROM THE OFFICE OF
DAVE BECK, GENERAL PRESIDENT
INTERNATIONAL BROTHERHOOD OF TEAMSTERS

Telephone: MAin 1284

HAROLD J. GIBBONS
Secretary-Treasurer

Local No. 688

1127 PINE STREET ¢ ST. LOUIS 1, MISSOURI

WAREHOUSE & DISTRIBUTION WORKERS' UNION

AFFILIATED WITH INTERNATIONAL BROTHERHOOD OF TEAMSTERS, CHAUFFEURS, WAREHOUSEMEN & HELPERS OF AMERICA

ADMINISTRATIVE FILE
Health & Welfare
X
X

September 22, 1953

Mr. Dave Beck, General President
International Brotherhood of Teamsters
100 Indiana Ave., N. W.
Washington, D. C.

Dear President Beck:

Enclosed is a publication I thought

you might be interested in seeing.

Fraternally yours,

H J Gibbons

H. J. Gibbons,
Secretary-Treasurer

HJG/yk
Enc.

See page 4

EDUCATION · RESEARCH · INDUSTRY

MEDICAL EDUCATION · KEEPS AMERICA HEALTHY

THE Medical Advance

Published by the National Fund for Medical Education • 2 West 46th Street, New York 36, N. Y.

Vol. 1, No. 8 September 1953

INDUSTRY, MEDICINE HAVE JOINT STAKE IN HIGH QUALITY OF MEDICAL EDUCATION

If industry and the medical profession are to meet their major responsibility to society in the next two decades — a joint responsibility for helping the American people achieve the highest possible health and living standards — closer liaison between corporations and the medical schools is absolutely essential.

That was the conclusion of nearly a score of corporation medical directors and medical school officials at a conference called by the National Fund for Medical Education in New York recently to "explore ways of strengthening the link between academic and environmental medicine." There was general agreement that:

- **Doctors in industry, playing a mounting role in keeping America's workers healthy and productive, depend on the medical schools for both their basic and their refresher training. Industry and the schools, therefore, have an equal stake in the quality of medical education.**

- **To protect that stake and insure steadily rising standards of medical training and research, industry and the schools need a mechanism that will make cooperation easy and effective. The Medical Advisory Committee of the Fund's Committee of American Industry, composed of 442 corporation medical directors, is tailor-made for that role.**

The four major reports took note of current demands for more undergraduate training in industrial medicine, but implied that the specific requirements of industrial medicine might best be met by increased emphasis on preventive medicine.

DEAN GEORGE PACKER BERRY of the Harvard Medical School, past president, Association of American Medical Colleges, called for a thorough overhauling of medical education to prepare future doctors for the practice of "comprehensive" medicine, instead of the narrower "scientific" medicine that prevails today. Scientific medicine, he pointed out, stresses mainly the biological, chemical and physical factors in disease. Comprehensive medicine, on the other hand, "accents the preventive features of medical practice, striking hard at the circumstances — physical, genetic, environmental and psychological — which give rise to disease, striving to cut down illness at the earliest possible link in the chain of events."

DR. ROBERT COLLIER PAGE, medical director, Standard Oil Co. (N.J.), reporting the collected opinions of various corporation medical directors, outlined the advantages of closer cooperation between industry and the medical schools. He

quoted one physician as suggesting that, because private practitioners provide most of the industrial medical care in the nation, more teaching time "should be devoted to the socio-economic aspects (of industrial medicine) and the relationship between the private practitioner, the industrial patient and industry."

DEAN JOSEPH C. HINSEY of the Cornell University College of Medicine, also an AAMC past president, reported that undergraduate medical training does not seek to teach "techniques required for the successful practice of the various specialties." It seeks, among other things, to provide "the setting in which the student can learn the fundamental principles applicable to the whole body of medical knowledge."

DR. EARL C. BONNETT, medical director, Metropolitan Life Insurance Co., and with Dr. Page, a co-chairman of the Medical Advisory Committee, pointed out that, with the trend toward "treating the whole man", the job of the industrial physician in the future may not differ much from that of the general practitioner. Curriculum emphasis on industrial medicine as a separate discipline, therefore, may not be necessary. The big job of the doctor in industry, he declared, is prevention and health conservation — which requires that his activities and interests be extended to the worker's home where "a lot of the industrial physician's problems are initiated, although the employer bears the brunt of their manifestations."

Dean Vernon W. Lippard of the Yale University School of Medicine, expressed the view that good medical practice helps industry, not only through plant health programs — which save employers money — but by helping American communities maintain a healthy work-force. Dean John McK. Mitchell, University of Pennsylvania School of Medicine, and Dr. David Goldstein, medical director, New York Times, suggested that medical schools make greater use of industry as a laboratory in training doctors. Others present at the meeting were:

J. A. Curran, M. D.	State Univ. of NY., Coll. of Medicine, NYC.
Leonard J. Goldwater, M.D.	Columbia Univ. School of Public Health
H. Sherwood Lawrence, M.D.	N.Y.U. College of Medicine
John Neilson, Jr., M.D.	Union Carbide & Carbon Corp.
Norman Plummer, M.D.	New York Telephone Co.
John J. Poutas, M.D.	Lever Bros. Co.
Harry E. Ungerleider, M.D.	Equitable Life Assurance Society
C. Richard Walmer, M.D.	Industrial Hygiene Foundation
George F. Wilkins, M.D.	New England Tel. and Tel. Co.

Copies of the four major reports are available from the National Fund for Medical Education, 2 West 46th Street, New York 36.

IS ANYBODY LISTENING?

Companies that have trouble "reaching" their employees — on such subjects as health, safety, production and the like — may be interested in:

TALKING IT OVER, a manual on getting ideas across to employees, stockholders and dealers, published by the National Association of Manufacturers, 14 West 49th Street, New York 20. Contains (1) a 12-months schedule for a communications program, (2) samples of successful talks, letters and bulletins used by various companies and (3) descriptions of tools and techniques. 65 pp. First copy free.

PRETESTING AND EVALUATING HEALTH EDUCATION, published by the Public Health Service, Washington 25, D. C. Tells how to find out in advance whether educational materials are likely to be read and understood by the intended audience. 26 pp. 20¢.

MEDICAL TREATMENT OF 'REPEATERS' CUTS ACCIDENTS

By treating accidents as a medical problem, the Third Avenue Transit System, New York, employing 2,000 bus operators, cut its annual accident total to less than half and saved hundreds of thousands of dollars in compensation and liability costs.

This was accomplished primarily through an accident prevention program worked out by Dr. Harold Brandaleone, medical director, with the cooperation of the safety and personnel departments. It is built around three steps: (1) rigid preemployment examinations, (2) expanded medical services for employees, reaching into the home and (3) regular medical checkups.

Accident "repeaters" get special study. One group of 156, who got consultation and retraining, reduced their accident rate 22.7 percent in six months. Another group of 86, who got medical treatment in addition to retraining, reduced their rate 83.6 percent in the same period.

A medical "profile" is kept on every bus driver. In addition to on-the-job characteristics, it shows social, domestic and other factors that may affect his work. Periodic examinations turn up ulcers, diabetes, impaired vision, astigmatism and high and low blood pressure — which can be treated before they cause accidents, rather than after.

One driver, with an excellent previous record, had three accidents in two months. Investigation disclosed that his wife was nagging him to move to the west coast. He was given a leave of absence, moved to California and returned five weeks later saying that his wife preferred New York. He hasn't had an accident since.

Aside from the unknown savings from decreased liability claims, the program brought the total cost of sick benefits, employee compensation and medical department upkeep down from $256,424 in 1946 to $181,599 last year.

For its pioneering work in accident prevention the company has received two awards from the American Transit Association. The plan went into effect in July, 1947. Here are the before-and-after accident figures, at two-year intervals:

YEAR	1946	1948	1950	1952
Vehicle Collisions	5,361	4,150	2,894	2,170
Pedestrians struck	386	247	131	113

\- - - -

Dr. Brandaleone's own description of the program is available on request from the Medical Department, Third Avenue Transit System, 2396 Third Ave., New York 35.

INDUSTRIAL HYGIENE REPORTS AVAILABLE

Some of the collected reports delivered at the 17th annual meeting of the Industrial Hygiene Foundation, Pittsburgh, Nov. 1, 1952, are available from the Foundation, Mellon Institute, 4400 Fifth Avenue, Pittsburgh 13. $1.

ST. LOUIS HEALTH PLAN CUTS ILLNESS LOST TIME TO 3 DAYS PER YEAR

After the Labor Health Institute, a labor-management medical center in St. Louis, had been in existence five years, one employer said: "We're in this for selfish as well as humanitarian reasons. Healthy workers certainly are better than sick ones."

The Institute, a joint project of Local 688, International Union of Teamsters, AFL, and the firms with which it has contracts, reports that its 9,000 members averaged only three days lost time from illness last year. It is financed through employer contributions of 3½ to 5 percent of gross payroll. (The 5 percent is for family coverage.)

Among the 200 firms participating are: Brown Shoe Co., Rice Stix Dry Goods, Shapleigh Hardware, Crown Cork, J. C. Penney, Forbes Coffee, Butler Bros. and Puro.

Last year, the center recorded 85,000 individual visits. It gave 21,000 laboratory tests, 29,000 x-rays and 1,000 physical therapy treatments. Outside the medical center, 1,200 persons were hospitalized, 600 operations were performed and 224 babies were delivered. The LHI drug store filled 22,700 prescriptions. Home visits totalled 4,800 and there were 1,100 patient visits to staff doctors in their private offices. All medical records are confidential between physician and patient.

In addition to 65 part-time doctors and dentists, the professional staff includes registered nurses, x-ray technicians, full-time druggists and a medical librarian. Leaflets, posters, movies and classes emphasize shop safety and family health practices.

Chief emphasis is on prevention -- keeping people well -- rather than treating diseases. Periodic examinations are encouraged. Benefits are extended to unemployed members for six months through a reserve fund set up for that purpose. All services are free to members, but they pay for drugs, eyeglasses and dental materials.

Harold Gibbons, Local 688 secretary-treasurer and prime mover in setting up the Institute, is president. Dr. John McNeel is medical director.

The National Fund for Medical Education is a non-profit, voluntory corporation established in 1949 for the benefit of the nation's 79 medical schools. Editor, MEDICAL ADVANCE: Raymond Torr

THE Medical Advance

National Fund for Medical Education • 3 West 46th Street, New York 36, N. Y.

ADMINISTRATIVE FILE
Health & Welfare
X
X

(1)

100 Indiana Avenue, N. W.
9 July 1958

Mr. W. L. Meredith, President
Teamsters Local Union No. 181
39 West McMicken Avenue
Cincinnati 10, Ohio

Dear Sir and Brother:

Enclosed please find a copy of the A. F. of L. reference guide "Pension Plans Under Collective Bargaining" for Trade Unions.

This is in reply to your letter of July 2nd, in which you requested information on pension plans.

Fraternally yours,

Frank Tobin

FLT:em

Enc.

COPY

Pension Plans Under Collective Bargaining

A Reference Guide for Trade Unions

AMERICAN FEDERATION OF LABOR

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Preface

One of the most conspicuous developments in recent collective bargaining history has been the rapid spread of negotiated retirement plans. A Bureau of Labor Statistics study shows that, as of mid-1950, about 5,000,000 organized workers were covered by contractual pension plans—a threefold increase since 1948. The number has continued to grow since those figures were compiled.

On the surface, this seems to represent a very substantial amount of progress toward overcoming the economic hazards of old age. Unfortunately, the figures are misleading. The restrictions and limitations of most of these plans are such that, out of the more than 5,000,000 workers described as being "covered," very few have any real assurance of ever actually receiving a pension.

The figures are, nevertheless, an indication of the manner in which unions are trying to meet the very real and human problems faced by their older members. Few union men can see their fellow workers tossed out of the shop on their Social Security—with poverty and dependence awaiting them as the end reward of a long, productive and dues-paying work life—without feeling that something should be done about it.

The Federal Social Security system, even after recent improvements, still remains pitifully inadequate. A private pension plan will therefore seem to many to provide a sound and logical solution to the financial problems of the aged. Older members will naturally favor the idea. Younger members who can see far enough ahead to consider the time when they will be in the same boat will also be inclined to approve.

At first glance, then, almost any kind of a paid retirement plan may look like a substantial improvement. Unfortunately, the issue is not that simple.

In its net effect upon a group of workers, an ill-considered or poorly-designed retirement plan is not necessarily better than none at all. Such a plan may impair other vital trade union aims and functions, while offering relatively little in return.

Whether or not a pension plan is actually a good idea, and the type of plan that ought to be set up, are questions with no single answer that would apply to all groups alike. The right answers can be found only after studying the

issue in relation to other economic objectives; in relation to the existing level of wage rates and working conditions; in relation to the effect upon mobility and job tenure of the members; in relation to the characteristics and most pressing needs of the members of the particular group concerned.

The experience of another union does not necessarily offer a sound guide. A plan that has worked well for one union may give much difficulty and few benefits if transplanted to a different situation and a different set of circumstances.

A retirement plan should be tailor-made to conform to the needs, characteristics, and resources of the particular group of workers which it is to cover. Its structure, its cost, and its value to the members will depend upon factors which vary from one group to the next. It is therefore a mistake simply to take another union's plan and adopt it, in all its details and without modification, as a model for an entirely different group of workers.

Here, as in other areas of collective bargaining, a little care and forethought will be well repaid. A pension plan is a long-term proposition—offering benefits to most of the members only in the more or less distant and uncertain future. Nothing is to be gained and much can be lost through hasty action.

The planning of a pension program—in the normal situation where funds and bargaining opportunities are not without limit—presents a series of choices between alternative courses of action. Only the particular union concerned, knowing the needs and wishes of its members, is qualified to make these choices.

If it makes them with its eyes open and with an understanding of the basic principles involved, most of the pitfalls and defects which are commonly attributed to private pension plans can be avoided, or at least reduced to a minimum. If it goes into this field blindly, the plan may prove a burden rather than a benefit, an irritant rather than an asset.

The purpose of this handbook is not to lay down any single hard and fast course of action for unions to follow in meeting the pension issue. The purpose is only to provide some of the basic facts necessary to an informed decision, and to describe the alternatives in such a way as to assist union negotiators in making their own best choice.

Part I

NATURE AND PURPOSE OF PENSION PLANS

The subject of pension-plans is not a simple one. If a careful and thorough job is to be done, the task of planning and operating a retirement program will require a lot of technical work on the details of cost and financing. Here the union official must rely to a large extent upon the "experts" who do that sort of work for a living. Up to a point, he will have to take their findings at face value.

While he should make sure that the persons who do this work are reliable, the union official should not waste his valuable time getting involved in a lot of purely technical questions. Preliminary estimates of cost can be finally verified only through experience under the plan in actual operation. Likewise, the best way to get to know all of the finer points involved in the administration of a pension plan is through actual experience in administering the plan.

The union negotiator should, however, know something about the general principles behind the figures relating to costs and methods of financing if he is to do an effective job at the bargaining table. Some of these principles are discussed in the following chapters.

But first of all, he should have a clear idea of the fundamental nature of a pension plan—what it can and cannot do, and how it fits in with all the other interests and aims of the union. He should know what the primary objectives of the plan ought to be, how those objectives rank in the order of priority, and how they can best be carried out. He should know what provisions are needed in order to provide the greatest possible degree of protection to the rights of the membership as a whole. This he cannot leave to the outside "expert".

Pensions Are Earned, Not Given

The paternalistic type of employer usually regards a pension as a gift or gratuity granted as an act of benevolence, or moral duty, to his "old and faithful" employees—in other words, as a bone for Old Dog Tray. This is a view which labor cannot accept, for it runs directly counter to the basic principles of the trade union movement.

Unions do not bargain for gifts or gratuities; they bargain for wages and conditions of employment. The negotiation of the labor contract is a transaction between equal parties in which equal values are exchanged—not a petition to a benefactor for charity towards a group of old retainers.

When a pension plan is brought within the scope of the agreement, both parties thereby acknowledge that it is in fact a part of the hire which the workers are to receive *in exchange for* their labor. It is not "free" and they do not get "something for nothing", as an act of grace on the part of the employer. They earn it and pay the employer for it by doing the work which constitutes their end of the contract.

A pension plan is not, therefore, a conditional or discretionary gift by the employer, but a *deferred wage* earned by current labor services, and required by the terms of the contract.

To many, the fact that a retirement plan is a form of compensation may seem too obvious to require further argument. Nevertheless, it is a point which ought to be kept clearly in mind. It has a very important bearing upon many questions which are bound to arise with regards to the form of the plan, the manner in which it is to be administered, and the rights of the members under the plan.

It means, first, that the workers' interest in the pension fund is not established solely by reason of advanced age and "long and faithful" service with an employer. That interest is established by reason of the work performed by all the members during the term of the contract.

The performance of that work is all the employer has a right to expect in return for his contributions to the pension fund. The amounts contributed by the employer to the fund, to finance the pension credits accumulated by the group during the term of the contract, should therefore be an irrevocable payment which the employer cannot withhold or recapture, just as he cannot withhold or recapture cash wage payments.

The workers' interest in the negotiated plan is equally strong regardless of whether the fund is set up formally on a so-called "contributory" or on a "non-contributory" basis. In the sense that the contributions paid in by the

employer have been earned by the workers, they actually pay the full amount of the cost in either case.

Likewise, the workers covered by the plan are properly entitled, through their union representatives, to a forceful voice in the control and management of the fund. This right is just as clear in the case of a negotiated plan as it would be in the case of a fund which the workers might set up entirely through their own resources—outside the shop and without employer interference—with money which they might elect to set aside out of their cash wages.

As a matter of fact, one of the practical alternatives to the negotiation of a union-management plan, based on employer contributions, is the negotiation of an equivalent amount as an increase in current cash pay, and the use of that amount—through an increase in dues or special assessments—to set up a strictly intra-union fund. About the only advantages to bargaining on pensions, where all the terms of the plan depend upon employer agreement, lie in considerations of administrative convenience, plus the fact that employer contributions to a pension fund are not currently taxable to workers as income, as they would be if taken in the form of cash pay.

Pensions Versus Other Economic Gains

Pensions are a labor cost item, like all of the other economic terms of the working agreement. Viewed solely from this standpoint, it should make little real difference to the employer whether that cost is incurred in the form of contributions to a pension fund, or in the form of higher wages, paid vacations, a health insurance plan, or a reduction in standard working hours.

A union's ability to negotiate a pension plan will depend largely upon its ability to bring enough argument and pressure to bear to induce the employer to accept a higher labor price. Under ordinary circumstances then, a union that is able to persuade an employer to pay into a pension fund should be just as able to take that economic gain in some form other than pensions if it elected to do so.

The negotiation of a pension plan therefore involves the sacrifice or deferment of some other alternative objective to which the union could have devoted its collective bargaining energies. In its simplest terms, this presents

the union with the question of a choice between current wages and deferred wages—of whether or not it would be wiser to take the cash and let the pension credits go.

Of course, there are other factors which may at one time or another make it easier or more desirable to negotiate a retirement plan than to secure an equivalent increase in cash wages or other benefits. Among these factors may be certain tax advantages for the employer, and precedents in other parts of the trade or in other trades—not to mention the wage stabilization situation.

Since their effects from the standpoint of inflation are entirely different, as well as for practical administrative reasons, the Wage Stabilization Board has quite properly placed wages and pension plans under separate sets of rules. The Board may accordingly permit the establishment of a pension plan where it would not approve a straight wage increase.

Under normal conditions, however, most unions must eventually decide whether the interests of the members would be better served by going after a pension plan or by concentrating on the task of improving the wage scale. This is a decision which each union must make for itself, in the light of its own particular circumstances.

Faced with the choice, one union may properly decide that a pension plan would be a desirable immediate objective. Another may feel that its members cannot at present afford to divert any part of their potential wage gains into a pension fund.

Pension Funds Limited in Use

In considering this issue, certain facts should be borne in mind. Pension funds are designed to serve but a single major purpose: to help meet the need for an assured income after a person's working life is over. Depending upon the person's present age, that particular contingency may be relatively remote as compared with other more pressing ones.

In contrast, a wage increase can be used for any number of purposes. It may be added to savings or used to provide an immediate higher standard of living. As liquid savings it will be available for other urgent needs as well as that of old age—the education of one's children, medical ex-

penses, living expenses during unemployment, payments on a house, or anything else that chance or choice might require.

These are economic problems which most workers must face long before they reach old age. A pension fund in which their equity is frozen until retirement will not help to meet them. Only cash wages can do that.

This being the case, the priority which a union will assign to a pension plan in its negotiations may depend upon the extent of its present old age problem, in relation to the extent to which its members are presently able to meet other pressing economic needs.

In extreme cases, the answer should be fairly obvious. Where the wage scale of a particular group of workers is at or near the bare subsistence level—or too low to provide decent food, clothing, housing or medical care—wage increases should be the first order of business.

Even though the problems of the aging in such a group are very serious, to sacrifice a possible wage increase in order to set up an expensive private pension plan would leave that group "insurance poor". This is one of the many reasons why private retirement plans can never meet the broad national problem of old age insecurity. The Federal Social Security system is the only practical means of solving that larger problem.

Pensions a Sound Objective for Many Groups

While limited to one main function, a well-constructed pension plan performs that particular function very well. There are many groups, therefore, that may derive substantial advantages from the negotiation of a sound retirement plan.

This might be true, for example, in the case of a union whose members enjoy a scale of wages high enough to provide a margin of economic safety after immediate needs have been met. For such a group, social security alone—plus what they may have been able to set aside individually—may mean too sharp a drop in their accustomed standard of living after retirement. They may well decide that the negotiation of a pension plan should take precedence over other considerations.

While a good pension plan is certainly not one of the cheaper things in life, the benefits which the individual member stands to get out of a group plan are much higher than he could possibly provide for himself if he were to set aside his pro-rated share of the cost of the plan in the form of individual savings. Of course, in return for this chance of higher benefits, he runs the chance of never getting anything back out of the fund at all.

Like a lottery or a baseball pool, some of the participants must lose out, if others are to get more out of it than they put in. A member pays for the assurance that if he does live until retirement, and meets any other qualifications that might be written into the plan, he will receive a guaranteed income for the rest of his life.

The relatively high benefits, in relation to the per capita cost, of a pension plan are made possible through tax savings and interest earnings on the funds held in reserve, and through the operation of the law of averages which will apply where the plan covers a substantial number of members. These aspects of the pension issue are discussed in greater detail in Part III.

By negotiating these plans through collective bargaining, workers can pool their respective risks and resources so as to take advantage of the law of averages and the economies of group participation, to provide those who qualify under the plan with a higher retirement income, at a lower cost, than they could otherwise obtain. They can spread this cost in a systematic and relatively convenient way over the span of their working and earning lives. In short, they can obtain benefits as a group which would be beyond their reach as individuals.

While the older men who are near retirement will get the most direct benefit from a pension plan, there are certain definite advantages for the younger workers also. In addition to having the promise of a future pension their present job security may be enhanced.

As the older men retire, new job opportunities are opened up. In slack times, the retirement of older workers may save the jobs of younger men who would otherwise be laid off. The retirement problem is therefore related to the broader problem of keeping involuntary unemployment at a minimum.

Part II

PENSION PLANS AND THE LAW

It is now firmly established that pension plans fall within the legal definition of "wages" and "conditions of employment", so that an employer cannot refuse to bargain collectively on the subject.

The National Labor Relations Board has ruled that "wages" include "emoluments of value, like pension and insurance benefits, which may accrue to employees out of their employment relationship", and that an employer's contribution to a plan "constitutes an economic enhancement of the employee's wages". This ruling has been upheld in the courts.

Taft-Hartley Restrictions

The Taft-Hartley Act places certain restrictions upon employer payments to union pension and welfare funds. Section 302 of the Act requires that:

(1) A written agreement must be made with the employer detailing the basis upon which payments are to be made.

(2) Employer contributions to union pension and welfare funds must be made to a trust fund, with provision for equal representation by management and labor in the administration of the fund, together with a neutral party or umpire to settle disputes. If the neutral party cannot be agreed upon, he is to be named by the United States district court.

(3) The agreement must provide for an annual audit, and public posting of the results.

(4) Pension funds must be kept in a separate trust and used only for pensions or annuities.

These restrictions do not apply to funds established by collective bargaining prior to January 1, 1946, nor do they apply where pension or welfare funds are controlled solely by management, or where they are supported solely by workers contributions or dues payments.

Tax Regulations

Under the regulations of the Bureau of Internal Revenue, employer contributions to a pension fund are not counted as a part of the employee's wages for purposes of the withholding or income tax at the time these contributions are made. The employee does not have to pay any income tax on these amounts until he actually retires and begins to receive the pension.

At that time, the portion of his actual pension which is derived from employer contributions is counted as income and taxed accordingly. However, the employee will not have to pay a tax on his pension unless his total income, including the pension, after retirement is high enough to put him in a taxable bracket.

Provided the plan is approved by the Bureau of Internal Revenue, the employer derives a substantial tax benefit from his contributions to a pension fund. These contributions are regarded as a cost of doing business and the employer may deduct the full amount from his taxable income, even though these contributions to the fund are in excess of the amount actually being currently paid out of the fund in the form of pensions. The interest income earned by an approved fund through the investment of its reserve is likewise exempt from taxation.

In order to qualify for tax exemption, a pension plan must meet certain requirements set forth in Section 165 (*a*) of the Internal Revenue Code. The chief requirements are as follows:

(1) The pension plan must be "permanent." It can be terminated only by reason of "business necessity" and then only after the advance approval of the Bureau of Internal Revenue has been secured. Otherwise heavy retroactive tax penalties may be incurred.

The Bureau of Internal Revenue has ruled that a pension plan which is part of a union-management agreement can be regarded as "permanent" within the meaning of this provision even though the agreement has a specific termination date—inasmuch as it is the intention of the parties to maintain the plan as a permanent feature.

(2) The plan must be established through a trust, contract or other legally binding arrangement.

(3) The pension fund must be for the exclusive benefit of the employees and their beneficiaries.

(4) Unless and until all liabilities under the plan have been satisfied, the principle or income of the pension trust cannot be diverted to purposes other than employee benefits. This rule operates to prevent the employer from receiving back any money paid into the trust, even if the payment is an overpayment.

However, he can get rebates in the form of "experience" credits which he can apply to reduce his future contributions or premium payments. In this way, overpayments or so-called "actuarial gains" may be taken out of the plan by the employer, as a reduction in his future costs, rather than left in to increase benefits to employees.

(5) The plan must cover either a certain minimum percentage of all employees, or a group of employees determined in such a way as not to discriminate in favor of officers, stockholders, supervisors ,or highly-paid employees. The Bureau has two alternative rules for administering this provision—the so-called "Arbitrary" rule, and the "Discretionary" rule.

Under the Arbitrary rule the employer may exclude certain short-service and part-time employees. Out of the remainder, 70 percent must be eligible for coverage under the plan. Out of those eligible, at least 80 percent must actually join the plan in order for it to qualify.

Actually, few plans come in under this rule. Most of them qualify under the Discretionary provision, which permits the Commissioner of Internal Revenue to approve any classification of eligible employees if it does not discriminate in favor of employees who are officers, stockholders, supervisory employees, or high-paid employees. Under this rule, many plans which are limited to far less than the number required by the Arbitrary rule have been approved, including plans which covered as few as 10 percent of the employees.

(6) The actual benefits specified under the plan must not discriminate in favor of employees who are officers, stockholders, supervisory personnel or highly-paid employees.

Pension Plans Under Wage Stabilization

The Defense Production Act specifically includes pension and welfare plans in its definition of "wages, salaries and other compensation" which the Act subjects to stabilization controls. However, the Act does not require that these plans be controlled in the same manner or by the same set of rules as are cash wages, or that their cost be offset against any permissible increases in cash wages.

On the contrary, there are many valid and compelling practical reasons why they should not be—as the Wage Stabilization Board finally came to recognize after attempting to write a formula under which pension costs would be offset against wage increases. Some of these reasons were set forth in a letter sent to the Board by Eric Johnston during his term of office as Economic Stabilization Administrator. Johnston pointed out that:

> "Health, welfare and pension benefits in general do not constitute payments which in fact compensate for increases in the cost-of-living. Nor do they add to the purchasing power of workers and thus to inflationary pressures.
>
> "These benefits are a form of saving and to that degree are non-inflationary. Furthermore, it is difficult to evaluate the cost of these plans accurately in terms of dollars and cents. Such an attempt would only result in confusion.
>
> "For these reasons, I request the Board to prepare regulations that, within approved limits, would exclude health, welfare and pension plans from the adjustments permissible under the ten per cent allowance. The Board should then set up standards under which it would consider the approval of such plans as may be submitted to it."

The current policy of the Wage Stabilization Board is embodied in General Wage Regulation No. 21, adopted February 22, 1952.

It places no specific limits on the amounts of benefits which may be provided upon retirement or in case of total and permanent disability before retirement, nor upon the amounts which employers may contribute to a pension fund. Unions and employers are free to adopt any type of benefit formula, or method of determining the amount

of pension to be paid to retiring members, that they desire. The only stated restrictions to which they must conform in order to obtain "automatic" approval for a plan are the following:

(1) The normal retirement age for full benefits must be at least age 65. (The Board will approve age 60 for women). Benefits paid to workers who retire before age 65 must be reduced to the extent necessary to take account of the shorter period of service before retirement (except in the case of unit benefit per year of service plans whose formulas accomplish this automatically). Except in the case of early retirement for disability, they must also be reduced to take account of the longer period of life expectancy during which the pension is to be paid, and other "actuarial" factors.

(2) Payment of benefits, except death benefits, must be spread over the lifetime of the employee. They may not be paid in a cash lump sum.

(3) The plan may not provide for the payment of cash benefits, derived from employer contributions, to workers who sever their employment before retirement. However, "vesting" rights, whereby a worker receives a paid-up annuity or permanent equity in the pension fund which will pay off when he does reach age 65, may be provided.

Before a plan can be put into effect, a report of its details must be filed jointly by the union and employer. This report should be sent directly to the national Wage Stabilization Board in Washington. A special form is available for this purpose, and may be obtained at the nearest office of the Wage and Hour and Public Contracts Division of the U. S. Department of Labor.

The Board will acknowledge receipt of this report, and unless the parties are notified to the contrary within 30 days after the date of the letter of acknowledgement, they may put their plan into operation as of the effective date provided for in the terms of the plan.

Reports of plans which do not conform to the restrictions described above, or which the Board feels may be "unstabilizing" on other grounds, will be treated as petitions for approval, and the unions and employers will be so notified. Such plans cannot be put into effect until the parties receive specific notice that the Board has approved them.

The regulation further requires that a plan must eventually obtain Bureau of Internal Revenue approval for tax exemption before it will be regarded by the Board as "finally" approved. However, unions and employers do not have to wait for Internal Revenue approval before putting the plan into effect. The plan may be placed in operation as soon as the 30-day review period is up or, if it does not meet the requirements for automatic approval, as soon as a ruling is received from the Board.

Regulation No. 21 does not govern pension funds set up to cover building trades workers whose wages are controlled by the Construction Industry Stabilization Commission. In the case of these workers, new employer contributions to a pension fund must be offset against any wage adjustments allowable under the Commission's stabilization policy for 1952. This policy provides for the case-by-case approval by the Commission of wage increases up to 15c per hour in excess of the rate approvable under the old 10-percent formula. The Commission has made separate provision for "health and welfare" funds, for which a 7½ cent maximum allowance—over and above any allowable wage adjustments—has been adopted.

Part III

PENSION COST FACTORS

Cost determination is probably the most difficult single question involved in the establishment of a pension plan. Only a reliable actuary is qualified to make a firm estimate as to how much a given level of benefits for a particular group of workers may cost—or how much in the way of benefits a given level of contributions can safely provide—and even his estimate is likely to be little more than an educated safe guess.

While the union negotiator should not undertake the functions of an actuary, he should know something about the principles upon which cost estimates are based, so as to be able to make intelligent use of these figures at the bargaining table, and in the administration of the plan.

Cost Equals Benefits Less Interest Plus Expenses

The actual operating costs of a retirement plan will be determined by:

(1) the amount of benefits paid to each retiring worker;

(2) how many workers qualify for benefits;

(3) how long retired workers live to receive benefits;

(4) the rate of interest earned through the investment of the money held in the pension fund;

(5) the expenses incurred in administering the pension system (clerical expenses, legal, actuarial and accountant's charges, etc.).

The real cost is equal to the total benefits paid out, less the interest earned, plus the operating expenses.

Obviously, none of these several factors can be relied upon to remain fixed and uniform in amount at all times. Each factor may and will move up or down from time to time while the plan is in operation.

How much a plan will be costing at any one future moment in time cannot, therefore, be accurately predicted long in advance. However, over an extended period of time, the temporary up and down movements of these variable factors will tend to balance out.

If this is the case, the long-term average cost of the plan will tend to be uniform and can be estimated. This estimate can then be used as a basis for computing a uniform rate of contributions which will be needed to finance a given schedule of benefits.

To aid him in making this estimate, the actuary has certain facts, records, and tables of statistics available. These records and tables show what past experience with regards to the factors affecting pension costs has been. They enable him to determine the rate of interest pension funds have been earning from their investments; the average death and survival rates for persons at given ages; employee turnover rates; prevailing levels of administrative expense.

The actuary arrives at his preliminary cost estimate by assuming that past experience with regards to these various factors will—on the average—continue to hold true in the future, and that the particular group under study will have the same experience. If this group of workers is large enough to enable the "law of averages" to work out as expected; if the group has no peculiar characteristics which might cause a variation from the general experience on which the assumptions were based; and if the actuary takes proper account of each of the factors which affect the cost of the plan; then the actual cost should—over the long run—turn out to be reasonably close to his preliminary estimate.

Actually, however, there is a considerable area of disagreement, even among professional actuaries, as to the manner and degree in which account should be taken of certain factors in particular situations in computing preliminary estimates of cost. There is still a wide area in which individual judgement must play a part. Since actuaries are human, they too can be wrong in their judgements.

For this and for other reasons, most professional actuaries will prefer to err on the conservative side, by using cautious assumptions which leave a substantial margin of safety. This will result in a more or less deliberate overstatement of probable costs.

There are other causes which may lead to substantial deviations between estimated costs and actual costs. A sys-

tem whereby cost estimates are based on certain past averages cannot anticipate long-term upward or downward trends which may cause these averages to be no longer valid in the future. If average interest rates were to show a long-term decline in the future, for example, the actual cost of a pension plan will exceed an estimated cost based on past average interest rates.

Furthermore, there is no practical way in which actuaries can take accurate account, in advance, of extraordinary events such as wars and depressions, which may have a profound influence on the factors affecting costs, but which cannot be actuarially predicted.

For these reasons, the actual cost experience of a plan should be surveyed from time to time by an actuary as a check to see whether or not the initial cost estimates are being borne out by experience, and what adjustments are needed, if any. If the actual cost is less than anticipated, an "actuarial gain" is said to have occurred, and it may be possible to either reduce contributions or increase benefits. If the actual operating cost is greater than anticipated, an "actuarial loss" results, and it may be necessary to either increase contributions or decrease benefits.

How to Get Technical Assistance

Generally speaking, there are two ways in which unions and employers can get outside actuarial assistance in setting up a pension plan. They can either engage a professional consultant on a fee basis or they can call in an insurance company representative and ask him to submit cost estimates for a proposed plan. Some banks and trust companies that make a business of administering pension funds also offer consulting services.

The services of independent actuaries and consultants do not come cheaply. While it may be possible to negotiate a flat overall fee, their charges are usually based upon the man-hours of work required to perform the services.

The total amount of the fee will therefore depend upon the size of the group, the character and complexity of the plan, the ease with which the necessary data can be gathered and reduced to usable form, and other factors which may affect the amount of time spent on the job.

An insurance company will supply cost estimates "free" of any direct charge to the union or employer, in hopes of selling its particular insurance product to the parties. However, all of the insurance company's expenses, including sales commissions, and profits, are included in its premium charges—so none of its services are actually "free" of charge.

Aside from the question of expense, there are certain advantages in hiring an independent actuary rather than relying on an insurance agent. The professional consultant will not be interested in selling any particular product or type of plan as against some other plan which might be better adapted to the needs and desires of the group. He will be on hand for consultation, to answer technical questions and to give advice if needed, at the time it is needed.

The technical services of an insurance company, on the other hand, are more likely to be a remote-control proposition. Insurance sales agents are seldom very well-informed on the technical details of pension plans, and will have to refer most questions to their home office for an answer.

A good professional actuary can figure costs much more closely than insurance companies are willing to do. He can adjust for certain factors—such as employee turnover—which insurance companies do not ordinarily include in their calculations or premium rate schedules. Cost estimates submitted by insurance companies will be considerably higher than those that will be worked out by a competent independent actuary who takes careful account of all the probabilities.

Local unions that are about to negotiate a retirement plan should consider the possibility of an arrangement with the employer whereby they might jointly engage an impartial actuary to provide the necessary cost estimates, and to whom technical questions might be referred by both parties.

If relations with the employer are such as to make this possible, it would certainly be the most economical approach, since it would eliminate duplication of effort and expense. It would also facilitate collective bargaining by helping to eliminate one area of possible disagreement. Negotiations could then be devoted to questions of policy without getting bogged down in actuarial details.

If this is done, care should of course be taken in the selection of the actuarial consultant. Private consulting firms have generally in the past derived most of their revenue from employer business, and many—if not most—of them are well saturated with the employer point of view. However, there are a number of consultants that do a good bit of trade union as well as employer business and are equipped to provide thorough, fair and impartial service.

Data Needed in Computing Costs

Before the cost of financing a particular plan can be estimated, the actuary or insurance company must have certain data on the workers who are to be covered by the plan. The union should collect this information before the experts are called in.

The following facts on each individual worker in the group to be covered by the plan should be collected:

(1) Rate of pay (if the benefits of the plan are to be related to earnings)

(2) Age

(3) Sex

(4) Seniority or past service (if the benefits of the plan are to be related to service)

Local unions should, in most cases, be able to get this data from the employer, who will probably have it readily available in his files. While there have as yet been no NLRB cases on this specific matter, principles established in rulings in which employers have been required to furnish other types of data needed by the union for informed collective bargaining indicate that the employer is under a legal obligation to furnish this information.

If, for any reason, this information cannot be obtained through the employer, the union can make up cards with blanks for the members to fill in with the data needed. These cards should be distributed among the members, and gathered up after they have been filled in. The figures derived from this work force "census" should then be tabulated in some logical order—preferably by order of age—for handy reference and use.

With these figures, the actuary can then proceed to translate the benefits scheduled to be paid under the proposed plan into terms of the probable approximate cost, or vice-versa—to translate the level of contributions into the amount of benefits which they can safely provide.

In the former case, he will determine for each worker (or each group of workers that are identical with respect to age, service, and sex) the amount of benefits which will be payable upon retirement. He will then perform a series of computations to determine (1) how much money must be in the fund when the worker retires to guarantee him a pension for life, and (2) how much money has to be contributed to the fund during each year of his working life before retirement in order to make sure that the necessary amount is there when he retires.

Size of Fund Required to Guarantee a Pension

To figure out how much money must be in the pension fund when a worker reaches retirement age in order to guarantee his pension for life, the actuary makes an initial assumption as to how long the worker is likely to live after retirement. To guide him in making this assumption, he has at hand a mortality table which shows the average future life expectancy of an individual at all the various ages.

One table in common use at the present time is the so-called 1937 Standard Annuity Mortality Table. This is a relatively conservative table. Its use will yield a higher cost estimate than would be the case if other tables—such as the general Census tables—showing a shorter life expectancy, were used.

According to this table, the average male at age 65 can expect to live 14.4 years longer. The average female at age 65 can expect to live 17.55 years longer.

Experience has shown that a woman has about the same life expectancy as a man 5 years younger. Since a pension for life will have to be paid for a longer time, it costs a good bit more to provide the same amount of monthly pension for a woman than for a man.

That is why the cost of a given pension plan, providing the same level of benefits, will be higher for a group that

contains a substantial number of women than for a group that contains few women; and that is why the actuary must know how many women there are in the work force before he can make a reliable cost estimate.

If the retirement age is 65, then the average male worker reaching retirement can expect to collect his pension for 14.4 years, and there must be enough money in the fund when he retires to pay the specified rate of benefits for that length of time. Some workers will, of course, live longer than this, but the additional cost of paying them a pension for longer than 14.4 years will be offset by the money left over from the funds set up for workers who live less than 14.4 years after retirement.

If the rate of pension for which a worker qualifies at age 65 is $1,000 per year, the fund must be large enough to provide him with a total of $14,400 in income from the time of retirement until his death, when the pension will cease. This does not mean, however, that the pension fund need contain this full amount at the time he reaches age 65.

As previously mentioned, the actual cost equals benefits paid *less interest*. A portion of the pension will be paid out of interest earned by the residual part of the fund during the period of his retirement. These earnings can be estimated in advance and taken into account in calculating the amount of money that must actually be in the fund when he retires. This is known as "discounting for interest".

In taking account of interest earnings after retirement, the actuary will assume a certain rate of interest—usually somewhere between 2% and 3%. The rate used will make quite a bit of difference in his estimate as to how much money the fund should contain at retirement.

If interest is earned at the rate of 2%, for example, then a fund of about $12,400 will be needed to pay a pension of $1,000 a year beginning at age 65. If the rate is 3%, the same job can be done with about $11,550. About $11,970 would be needed at an interest rate of 2½%.

Annual Contribution Needed to Build Fund

Having determined the amount needed to provide a pension of $1000 a year starting at age 65—let us say $11,970 at the 2½% interest rate—the next task is to esti-

mate how much will have to be put into the fund, before retirement, in any one year in order to pay for that portion of his total retirement benefit that the worker earns in that year.

Let us assume that $1000 per year is the maximum pension allowable, with 25 years as the minimum period of service required in order to qualify for the full amount, and with the pension amount reduced proportionately for years of service less than 25. Under such a plan, workers of age 40 and over will earn a pension of 1/25 of $1000 a year—or $40 a year—for each year of service before retirement.

Workers below age 40, under such a plan, can—for financing purposes—be regarded as excluded from the plan altogether until they reach age 40. If, however, they are included in the financing arrangements, the pension credits earned by each year of their service before retirement will be considerably lower, since the $1000 a year maximum will be spread over more years of service.

Under this second approach, for example, a man aged 30 would accumulate pension rights at the rate of 1/35 of $1000 a year—or $28.57—for each year of service to age 65, as compared with $40 a year for workers aged 40 and over.

Let us assume that the first approach is followed and workers under age 40 are, for financing purposes, excluded from the plan. The amount that must be in the fund at retirement to guarantee the pension earned by one year of service on the part of the workers covered (the age 40 and over group) must be 1/25 of $11,970, or about $480. The annual contributions to the fund should be sufficient to assure that workers reaching retirement will have this much in the fund for each year of their credited service.

This does not mean, however, that the employer must contribute the full amount of $480 for each worker each year. There are a number of factors which serve to reduce further the current cost of financing the plan. In determining the actual annual contribution that must be made on behalf of each worker covered by the plan, the actuary will apply a "discount" for each of these factors.

The factors for which discounts are commonly taken are mortality before retirement, severance, and interest. Mortality and severance serve to reduce the number of persons

who will actually qualify for retirement rights under the plan. Interest earned on the fund as it accumulates will meet part of the cost of providing those who do qualify with a pension.

Discounting for Mortality

In estimating how much it will cost to guarantee that every worker who lives until retirement will receive a lifetime pension of $40 a year for each year of his credited service, the actuary will first make an estimate as to how many workers out of the group can, on the average, be expected to live until retirement. He can derive this estimate from the same mortality table he used in finding the average life expectancy after retirement.

The 1937 Standard Annuity Table, for example, will show that 73 percent of all male workers now at age 40 will live to age 65; that 77.2 percent of those at age 50 will live to 65; and that 89 percent of those now at age 60 will live to 65. A person's chances of living to a given age, of course, increase as he approaches that age.

The following table shows how this "discount for mortality" may be applied to reduce the amount of money that must be contributed each year to the pension fund in order to provide the necessary amount at retirement:

TABLE 1

First Step—Discounting for Mortality

Age of Worker	Fund Needed at 65 to Pay $40 a Year for Life		Percent Living to Age 65		Current Annual Cost after Mortality Discount Only
40	$480	x	73%	=	$350
50	480	x	77.2%	=	370
60	480	x	89%	=	427

As can be seen from this table, the current annual cost of financing a pension for a given worker will increase each year as the worker grows older and closer to retirement. By the same token, the overall cost of financing a pension plan will be higher for a group of workers which includes a high proportion of older men, than for a group which includes a relatively low proportion of older men.

The full mortality discount can only be taken in the case of a plan which makes no provision for the payment of any portion of the accumulated pension fund to a worker's family in case of his death. If a death benefit is provided, then the cost of funding a plan will go up because the mortality discount will decrease or disappear, depending upon how large a portion of the fund behind a worker's pension credits are to be paid to his survivors if he dies.

Discounting for Severance

There is another factor besides mortality that may prevent some of the workers from ever qualifying for retirement benefits. That factor is severance—or the loss of pension rights by workers who quit or are fired from the unit before they reach retirement age.

This factor will operate to reduce the cost only under plans which make no provision for "vesting" (the retention by a worker of accrued pension rights earned by previous service) if a worker leaves the unit covered by the plan. If partial or limited vesting rights are provided—such as where certain minimum age and/or service requirements must be met—then the severance factor will operate to reduce the cost only to a limited degree, depending upon how tight the limits on vesting are.

The actuary will study the turnover experience of the particular group, if that type of information is available, in order to get some idea of how many workers are likely to leave the unit before they reach retirement age. Or he may base his turnover estimates on the recorded past experience of some other group.

This is an area which calls for a considerable amount of judgment and discretion on the part of the actuary. His estimates will tend to be on the safe or conservative side, since the turnover factor is more variable, and cannot be predicted as closely as such factors as mortality and the interest rate.

The rate of separations is normally much higher among younger, short-service workers than among older workers with more seniority. Consequently, in the plan under consideration, many actuaries would prefer to assume that the bulk of the turnover experience of the group takes place

among workers in the below-40 age brackets, who are—for financing purposes—excluded from coverage under the plan. They will therefore take no discount for severance in computing the contributions needed to finance the plan, but will assume that all workers over age 40 who do not die will continue under the plan until they retire.

Insurance companies do not take account of turnover in computing their premium rates, even if the plan does cover younger groups in which the turnover is likely to be high. Instead of adjusting for this factor in advance, they will allow the employer a refund which he can apply against his future premium payments.

If the past history of the particular group indicates that some of the workers covered by the plan will quit or get laid off and find other jobs before they reach retirement age, the actuary will be justified in taking a discount against the cost for this factor. He will assume that the closer the worker gets to retirement, the less are his chances of abandoning his pension rights and leaving the work force before retirement. Therefore, the severance discount will—like the mortality discount—be greater in the case of the age 40 group than the age 50 and 60 group.

To follow this through, he may assume that 10 percent of the age 40 group, 4 percent of the age 50 group, and none of the age 60 group will sever their employment before retiring. He will apply this additional "discount for severance" so as to further reduce the amount of current annual contributions required to finance the stipulated pension, as shown in the following table:

TABLE II

Second Step—Discounting for Severance

40	$350	x	90%	=	$315
50	370	x	96%	=	355
60	427	x	100%		427

Discounting for Interest Earnings

The discounts for mortality and severance are based upon the fact that no funds at all will be needed for some

of the workers in the group. The interest discount takes into consideration the fact that some of the funds that will be needed will be provided, not by employer contributions, but by interest accumulations.

From a set of pre-computed interest tables, the actuary can find out what fraction of a dollar has to be paid into the pension fund, at a worker's present age, in order that this amount plus accumulated interest will equal one dollar by the time he reaches retirement age. For example, in the case of a worker age 40, about 54¢ invested now at 2½ percent interest will equal $1.00 by the time he retires, 25 years in the future.

By applying this figure to the last preliminary cost estimate, derived in Table II, the actuary "discounts for interest"—that is, he reduces the current cost estimate still further in recognition of the fact that a part of the fund needed at retirement will be provided by the compound interest which the money contributed this year will earn by the time the worker actually retires.

This final step is shown in the following table, assuming that interest is earned at the rate of 2½ percent:

TABLE III

Third Step—Discounting for Interest

Age of Worker	Cost Estimate before Interest Discount (from Table II)		Amount Needed Now to Provide $1.00 at age 65, at 2½% Compound Interest		Final Cost Estimate
40	$315	x	$ .54	=	$170
50	355	x	.69	=	245
60	427	x	.88	=	378

Thus, the final estimate as to the current annual cost of funding a pension of $40 a year for each year of service to age 65 will be as follows: $170 each for workers in the age 40 group; $245 each for the workers in the age 50 group; and $378 for the workers in the age 60 group.

As can be seen from the above figures, the shorter term during which interest is able to accumulate before retirement also serves to increase the cost of an identical benefit for an older worker as compared with the younger worker.

Pro-Rating the Cost

If, for purposes of easy illustration, the entire group covered by the plan is composed of 30 workers aged 40, 20 workers aged 50, and 10 workers aged 60, the total annual contribution required to finance the pension credits earned by one year of current service will work out as shown in the following table:

TABLE IV
Total Current Annual Cost

Age of Workers	Number of Workers		Estimated Cost Per Worker for One Year's Credit		Total Cost of One Year's Credits for Group
40	30	x	$170	=	$5100
50	20	x	245	=	4900
60	10	x	378	=	3780
					$13,780

If an 8 percent charge for administrative expenses and "contingencies" is now added, the final annual current service cost for the unit as a whole would come to $14,882. The *average* annual cost per *covered* worker will be $14,882 divided by 60, or about $248 per man-year.

This does not include the workers in the below-40 age groups who, as previously indicated, are not technically covered by the plan. If these workers are counted in so as to obtain a figure showing what the actual pro-rated cost per worker covered by the collective bargaining agreement will be, the average cost figure will be substantially reduced.

For example, if we assume that there are in the unit, in addition to the 60 workers aged 40 and over, an additional 40 workers who are below age 40, the average cost per worker for the unit as a whole will be about $149 a year.

Reducing this to cents-per-hour, on the basis of 2080 man-hours of work per year, the estimated cost of fully financing the pension benefit rights accruing each year after the plan is set up would be about 7.2¢ per man-hour.

Financing the Past Service Cost

But the figures presented above are only part of the total cost picture. In addition to the annual contributions

required to finance the benefit credits which accrue with each current year of service—or "future service credits" as they are called—there is a heavy initial financial obligation involved in the establishment of a pension plan. This obligation stems from the so-called "past service" credits—the benefit rights earned by the workers covered by the plan as a result of their previous years of service before the date the plan was established.

Take, for example, the case of a worker who is now 60 years of age and has 20 years of past service in the unit. A pension plan providing a benefit of $40 a year for each year of service at age 65 is introduced. Unless he receives some credit under the plan for his past service, he will be able to accumulate only 5 years of benefit rights by the time he reaches 65. This will entitle him to an annual pension of $40 times 5, or only $200 a year.

To give him additional pension credits in recognition of his past service—and as a matter of practice this is invariably done—additional money will have to be paid into the pension fund, over and above the amounts paid in to finance the annual future service credits.

In working out a means of paying off this initial liability, the actuary will figure out how much it would cost to pay it off in full by making an immediate lump sum payment into the fund. He then works out an estimate as to how much it would cost if spread over a number of years with an annual installment to be made each year, until this past service is paid (or "amortized") in full.

The manner in which the past service cost is handled is probably the most flexible single feature of pension plan financing. It may be paid off over a period of anywhere from ten to thirty years, or it may not be paid off at all, but simply "frozen"—the term used for a system under which the employer pays interest on the amount of the past service obligation into the fund each year, but makes no payments to reduce the principle amount of the obligation.

A program whereby the obligation is paid off over a ten-year period is known as "maximum funding" since this is the most that the Bureau of Internal Revenue will approve for tax exemption. The system of "freezing" the past service obligation and paying interest, but no portion of the

actual debt, into the fund is known as "minimum funding", since no lesser amount of contributions is regarded as "actuarially sound".

Thus the annual cost of the same plan can vary widely, depending upon how the past service liability is handled. As an example, for one particular plan covering several hundred workers, it was estimated that the annual cost under a program of "maximum funding" would be about $210,000. After past service was paid off, the annual cost would be about $90,000. Under a program of "minimum funding", on the other hand, the cost would be fixed at about $120,000 a year.

When this past service cost is finally paid off, the cost of maintaining the plan will drop sharply, and from then on the only continuing cost will be the future service cost. Under the hypothetical plan under consideration on preceding pages, for example, the cost might start off, under a program of maximum funding at about 14¢ an hour. After the 10-year period during which the past service liability is paid off, the cost will drop to the 7.2¢ an hour estimate worked out for future service costs.

Other Methods of Computing Costs

The procedure for estimating costs outlined in the various steps set forth above is only one of several methods of determining and allocating the contributions needed to finance, or "fund" a plan. It is essentially the so-called "single premium" method of funding, under which each year's contributions are sufficient to make full payment for a unit of pension benefits earned by the service performed by each worker in that particular year. Each unit of benefits ($40 a year for life beginning at 65) is fully purchased in that year, and next year's contributions will go to pay for another additional unit of benefits.

Under this method, the annual contributions made on behalf of any one particular person in the group will increase each year, since the cost of a unit of benefits will increase as the worker grows older and closer to retirement. However, the average cost for the group as a whole will remain approximately the same each year, if the age distribution of the group remains about the same—that is, if younger workers come into the group in sufficient numbers to offset

the effect on the group average of the aging of workers presently in the group.

Another common method of funding costs is the so-called "level annual premium" method. Under this method the cost of providing the total benefit which a particular worker will have earned by the time he reaches retirement is computed and spread over the years he has remaining until retirement in such a way that a uniform level contribution is made each year on his behalf, instead of a contribution which increases each year as he grows older.

Thus, during his early years, a contribution made to provide the same unit of benefits for an individual worker under the level premium method will be greater than that which would be required under the single premium method. The level premium contribution will, however, become smaller than the single premium contribution would be during his later years before retirement.

This method of funding will make no separation between past and future service costs, but will combine them together and spread the total over the period between the worker's present age and his retirement.

A third method is the so-called "aggregate funding method". Under this approach, unit costs are not worked out for each individual covered and then totaled. Instead, the present value of all future benefit payments is determined, and the aggregate cost is spread over the future on some appropriate basis, usually by reducing the cost to terms of a certain percentage of covered payroll, which is paid into the fund each year.

Effect of Different Retirement Ages

Another factor which has a very important bearing upon the cost experience of a retirement plan is the age at which workers actually retire. The pension plan will specify a certain "normal retirement age", usually age 65, at which workers become eligible to begin receiving their full earned retirement benefits. In estimating the annual contributions that will be required to fund a plan, the actuary will ordinarily assume that all of the workers covered will elect to retire when they reach the normal retirement age.

However, unless the plan makes retirement compulsory at that age, the chances are that relatively few of the workers will choose to retire as soon as they become eligible. Many will prefer to continue working as long as they feel they can.

Instead of age 65, the actual average retirement age is likely to be closer to 67 or 68, and may be even higher, depending upon such matters as labor market conditions, living costs, character of the work, etc. During World War II, for instance, Social Security records showed that the average age at retirement was almost 70.

If not accounted for in advance, this factor of "deferred retirements" will serve to reduce the actual cost of the plan considerably below the level of the initial cost estimate—resulting in an "actuarial gain" for the fund.

The cost will be reduced by from 8 to 10% for every year that actual retirement is deferred beyond the normal retirement age. If the actual average retirement age experience of the plan is age 68, the cost will be about one-fourth less than the cost estimated on the basis of age 65. A plan that is estimated to cost 7¢ an hour, if everyone retires on schedule at age 65, may in practice cost about 5¢ an hour if the average worker defers retirement until age 68.

By the same token, a reduction in the normal retirement age would bring a proportionate increase in the cost of funding a given level of benefits. A plan that permits "optional early retirement" before the normal retirement age will therefore usually require an "actuarial reduction" in the benefit payable to the worker who elects to retire early.

However, a normal retiremant age of 60 rather than 65 would probably not increase the cost nearly as much as an assumption that all will actually retire at 60 would indicate. A high proportion of those eligible would undoubtedly elect to remain at work, at full wages, to 65 or beyond, particularly in view of the fact that their Federal Social Security payments would not begin until 65.

The point is that the actual cost will be determined by the average age at which the workers actually *do* retire—not the "normal" age set up for purposes of determining eligibility.

Part IV

METHODS OF FINANCING

Basically, there are three alternative systems of budgeting and financing the cost of a retirement plan. These are (1) a so-called "pay-as-you-go" approach; (2) a system of "terminal funding"; and (3) "full funding". They are by no means equally safe, equally economical, or equally beneficial to the workers covered by the plan.

The choice which unions and employers make, as between these three basic alternatives, is a very important one. It may well make or break the plan.

Pay-As-You-Go-Plans

The only purpose in describing the "pay-as-you-go" type of plan here is to enable unions to recognize and beware of it.

A so-called "pay-as-you-go" plan is really not a "plan" at all. It is little more than an unsupported promise that if enough money happens to be available at the time a worker retires then he will start getting a pension. Whether or not he continues to get a pension thereafter will depend upon whether or not there happens to be enough money available thereafter.

Under this approach, the pensions that are promised to workers in the future are not regarded as a present liability. The pension bills that will eventually fall due are not reduced to terms of an estimated current cost and allocated to the present through a system of uniform, regular installment payments into a fund over the period prior to retirement, as they are in the case of a "funded" plan.

If, for example, four workers retire this year, and the "plan" promises them $100 a month at retirement, the employer—having made no advance provision for the payment of these benefits—will have to dig down into his pocket at the time and pull out $400 for a month's pension payments. If it just isn't there, then the employer will either find himself faced with a serious financial problem, or the workers will not receive their pensions and the employer will find himself faced with an equally serious "labor rela-

tions" problem. And if he happens to have the $400 this month, there is no assurance that he will have it next month or next year or two years from now.

The term "pay-as-you-go" as applied to a pension arrangement of this type is a complete misnomer. It assumes that pensions become a cost item to the employer only at the time a pension benefit payment has to be made. Under every sound theory, the cost obligation is actually incurred at the time workers perform the services which entitle them to a certain amount of credit toward a future pension.

The service a worker performs each year before retirement should establish his right to a proportionate share of his final pension. That share should be fully financed in the year in which it is earned, so that payment will be guaranteed, regardless of what happens to the employer's subsequent fortunes.

Earned pension credits are bills for services rendered in the present—even though the workers may not be able to collect on those bills until sometime in the future. An employer is not really "paying-as-he-goes" unless he sets aside, out of his own reach, enough money to cover those bills as they accumulate. Otherwise he will face a large number of accumulated unpaid bills all at once at some time in the future when his financial resources may not be adequate to meet the obligation.

In other words, the so-called "pay-as-you-go" method is really an "owe-as-you-go, pay-if-you-can" system. The worker who is serving under such a system is working for promises, not for money. He has no real rights in the plan, for no funds are being accumulated to back up those rights.

From the standpoint of comparative costs, there are three angles to consider. One is the fact that the total outlay by the employer will be greater under a "pay-as-you-go" approach, if he actually meets all his pension obligations, than it would be under a funded plan.

Under the latter system, compound interest will be earned by the regular, periodic payments made into a fund which is in turn invested in interest-bearing securities. These interest accumulations will pay a part of the pension costs which would otherwise have to be paid directly by the employer.

In answer to this, some employers may argue that they can earn a greater rate of return, in the form of company profits, by keeping money that would otherwise go into a pension fund in the business, mingled with all of the other assets and working capital of the company. They may compare the company's, say, 8% profit on invested capital with the 3% or 4% interest earnings of a pension fund.

This may be all very well if the cost of a pension plan is regarded as "the company's money" until such time as a pensioner actually receives some of it in cold cash. But it is not the company's money any more—or at least it should not be—after the workers have earned their pension service credits. It is the workers' money and they would be better off if it were more safely distributed than tied up in one particular company, whose failure would wipe out the fund completely.

Furthermore, if the pension money is held by the company without being separated from its other assets, there is no assurance that the profits earned with that money will actually enhance the pension fund. The pension program will have to compete with all the other claimants on the assets and earnings of the company.

If the company pays out all its profits in the form of dividends to stockholders, or bonuses to executives, every year, for example, then no interest is being accumulated by the pension money, in the form of company profits or anything else. In such a case, the pension money is actually being used to subsidize the dividends and bonuses of stockholders and executives.

Another factor affecting the relative cost of pay-as-you-go and funded plans is the tax question (see Part II). Approved funded plans are tax-exempt and contributions are fully deductible even if they currently exceed the total of benefits being paid out of the fund. Thus, if the contributions required to finance a funded plan amount to 10¢ per man-hour worked, the actual effective cost to a company in the 82% excess profits tax bracket would be 1.8¢ per hour. The interest earnings of the fund are also tax-exempt.

The payments actually made to pensioners under a pay-as-you-go system are deductible as a business expense in the year in which they are actually paid. The only difference

from the tax standpoint, therefore, between the contributions under a funded system and the pension payments made under a pay-as-you-go system lies in the difference between the contributions and the actual pension payments.

During the initial years of a funded plan, the contributions paid into the fund will exceed the pension benefits actually paid out, since contributions are being made on behalf of all the workers covered by the plan but pensions are being paid only to the first few who have actually retired. In a plan costing $100,000 a year and actually paying out current benefits of $10,000 a year in pensions from the fund, the full $100,000 may be deducted from the company's income for tax purposes. In an unfunded plan, however, only $10,000 would be deductible.

Over the years, on the other hand, the current benefit liabilities under the pay-as-you-go plan would climb steadily until they are well above the level of contributions required by a funded plan. In those later years, the tax deductions would be greater under the unfunded plan.

The question as to which type of plan would be most economical from the standpoint of tax savings alone, therefore, would depend upon whether the company's earnings, and the corporation income tax rate, are likely to be higher or lower twenty years from now than they are today.

This is something which cannot, of course, be accurately predicted. The chances are, however, that an employer will realize the maximum in tax savings under a fully funded plan. If he pays off the heavy initial past service liability as rapidly as possible, he can take full advantage of the exemption of such payments from excess-profits as well as normal corporation income taxes.

The third, and probably the most significant, contrast between funded and unfunded plans from the cost standpoint is the budgeting aspect of the problem. It is here that the relative disadvantages of the pay-as-you-go approach are most obvious and most serious.

A fully funded pension plan is based upon a more-or-less constant and uniform level of contributions. The costs are known, at least roughly, and can be adapted to the resources available and normal expectations. The highest single element of the cost (past service cost) is anticipated

and usually disposed of during the early years of the plan's operation. The regular expense of the pension plan can therefore be fitted into a stable pattern along with all of the other normal operating costs of the company.

A pay-as-you-go plan, on the other hand, is a relatively unknown factor. The costs are likely to fluctuate widely from year to year. The only thing that is reasonably certain about them is that the net effect will be like pushing a snowball up a hill. The amount will steadily accumulate and become harder to handle until the point of maximum cost is reached.

How this will work out can easily be seen from a simplified example. Suppose an unfunded plan is put into effect this year and ten men retire on a pension of $1000 a year. This year's cost will be $10,000. Next year ten more men retire on the same amount. Twenty men will then be on the retirement rolls, so that the annual cost will become $20,000. The third year, 10 more men retire and the annual cost becomes $30,000, assuming no deaths, since the twenty men who retired the first and second years will still be drawing a pension.

If the rate of retirement remains the same, and if the average life expectancy after retirement of 14.4 years is realized, the cost will continue to snowball until 144 men are on the retirement rolls drawing $1000 each per year, or a total cost of $144,000 a year. After that, the cost may tend to stabilize if the death rate equalizes the rate at which new pensioners go on the retirement rolls.

At no time is there a reserve. Since the full amount of the cost is currently being paid out to pensioners, there are no interest earnings to reduce the payments required of the employer. The average direct cost of the total pension paid to each retired worker is $14,400.

This is, of course, an over-simplified example, solely for purposes of illustration. In actual fact, the number retiring each year will vary, some will die before 14.4 years after retirement, while others will stay alive and on the rolls longer than that. Nevertheless, it properly illustrates the general cost trend that will be experienced by plans of this type.

About the only possible advantage to the employer of an unfunded system, as against all of its disadvantages, lies in the fact that, under the tax laws, it can be much more easily terminated or abandoned than can a funded plan. This in itself should be sufficient to cause a union to suspect the motives of an employer who insists upon a pay-as-you-go basis for a plan.

Terminal Funding

The "terminal funding" method of financing a pension plan lies about halfway between the pay-as-you-go approach and full funding. Under this method, a fund for each retiring worker is created at the time he retires, but not before. The employer puts up, on the day a worker retires, the amount necessary to pay that worker's pension for as long as he lives. This may be done by buying him a life annuity from an insurance company at that time, or by depositing the amount required to pay the pension to his account in a trust fund.

This approach is an improvement over the pay-as-you-go approach, but—from the trade union point of view—not much of one. While a pay-as-you-go plan implies that the worker has no right whatsoever to any guarantees with regards to his pension payments, even after he retires, the terminal funding system implies that he has no rights whatsoever under the plan until he actually retires.

This approach gives a great deal more security to the worker after he goes on the retirement rolls than does a completely unfunded system. However, as far as the worker who has not yet reached retirement is concerned, all of the objections that might be raised against the pay-as-you-go approach can be made against the terminal funding approach.

About the only situation in which this approach—or something similar to it—can be considered possibly acceptable would be where it is used in conjunction with some other means of segregating funds for the ultimate payment of pensions, on a current basis. For instance, it might be used as a part of a system in which the members of an employers' association under contract with a union make periodic payments of a certain definite amount of money into a jointly-administered central fund.

The money accumulated in this fund is not specifically allocated to the individual worker until he retires. When he does retire, however, money is either set aside to his individual account, through self-insurance by the fund, or is used to purchase a life annuity for him from an insurance company, so that his pension is guaranteed for life. In such a case, this terminal funding approach is used as a means of separating the future fortunes of the retired workers from those of the general fund, thereby assuring him a greater degree of security.

The example described above is not, strictly speaking, a terminal funding system unless all of the money paid into the fund by the various employers is used each year to guarantee the full pensions of workers currently retiring. If the contributions are large enough to permit the building up of a reserve against obligations for future pensioners, then the plan takes on the aspects of a funded system. If the contributions are large enough to permit the building up of a reserve that is "actuarially" sufficient to provide for all of the future pension rights that have accrued and are currently accruing, then it becomes a "fully-funded" system.

The cost of a terminal funding system will tend toward a greater degree of uniformity than that of a pay-as-you-go system. It will still fluctuate considerably from year to year, depending upon how many workers retire each year, but it will not "snowball" in the way that an unfunded system will. The initial cost will be higher, but the overall operating cost should be lower, because of the interest earnings of the funds set aside at retirement.

The total direct cost for each retired worker under the terminal funding approach, after discounting for interest at the rate of 2½%, would be about $12,000. The employer will put up this amount at the time the worker retires and thereafter make no further payments on his behalf. This compares with an average cost per retired worker of $14,400 under a pay-as-you-go system.

Full Advance Funding

Enough has been said about funded systems so far, including the description in Part III of how the costs are computed, to indicate their nature. Briefly stated, a sys-

tem is said to be fully funded in advance if money is being currently contributed to the pension fund in an amount sufficient to pay for all of the "future service" credits that are currently accruing, plus a portion of the total "past service" liability.

The money put into the fund for each pensioner under a fully funded system would be considerably less than under the terminal funded sytem, because this money will accumulate interest prior to retirement as well as after. If annual contributions are made with the first payment beginning when the worker is age 40 and the last when he reaches retirement age, interest will pay about 25% of the cost of the sum needed at retirement, assuming a 2½% interest rate.

The actual cost of one full life pension of $1,000 a year will be about $9,000, as compared with $12,000 under the terminal funding system and $14,400 under the pay-as-you-go plan. Of course, there will be an additional cost during the beginning years of the funded system in the form of amortization payments on the past service obligation, but these figures will give some idea of the comparative long-run "normal" costs of the three systems.

Part V

METHODS OF ADMINISTERING

There are a number of alternative methods by which a funded plan may be set up and administered. Basically, however, these alternatives boil down into a choice between two agencies—an insurance company or a self-administered trust fund.

Self-Administered Trusteed Plans

A trusteed plan—often referred to as a self-administered or self-insured plan—is one in which the employer deposits with an outside agency, other than an insurance company, the money needed to fund the pension benefits called for by the terms of a contractual plan.

The outside agency is entrusted with the management and investment of the money, but does not take responsibility for or guarantee that the money coming in will be sufficient to pay the benefits set forth in the plan. It may be a bank or trust company, or a joint or tripartite Board of Trustees, designated by the union and employer and charged with the investment of the funds as well as the administration of the terms of the plan.

In order to determine the basis upon which contributions and benefits are to be paid, the parties may engage an actuary. The actuary makes a survey of the work force covered by the plan, studies the experience data available, and makes a calculation as to the amount of contributions that will be required in order to provide the scale of benefits set forth in the plan. Or, if the contract calls for a fixed and definite periodic contribution by the employer or employers covered by the plan and leaves the amount of benefits open for later determination, the actuary will calculate how much in the way of benefits those contributions will provide.

The contributions will be invested in such a way as to yield (presumably) the maximum return consistent with safety and prudence, and the benefits called for by the plan or determined by the actuary to be appropriate to the funds available are paid out of the accumulations of the fund.

The Board of Trustees or special Pension Committee set up to administer the terms of the plan will establish the rules, direct the payment of benefits, and make the day-to-day decisions necessary to the operation of the plan, within the framework of the pension agreement. The bank or trust company, if such agencies are used, will manage the investments of the fund and make payments as directed, but will not administer the plan.

The trust agreement may set forth certain restrictions on the manner in which the fund is to be invested, such as a restriction against investment in the securities of the company or companies that are party to the agreement. It may also set forth voting rules and arbitration procedure for the resolution of questions on which union and employer representatives on the Board or Pension Committee cannot agree. It may also give the Board or Committee members the right to engage, at the expense of the fund or of the parties, the services of professional consultants such as actuaries, lawyers and accountants.

The plan should be periodically rechecked by an actuary to make sure that benefits still bear an appropriate relation to contributions, and that the assumptions used in estimating the cost of the scheduled benefits—mortality and interest rates, severance, deferred retirements, etc.—are still valid in the light of the experience of the fund. If they are not, then either the contributions or the benefits may have to be adjusted up or down accordingly.

Unless it is conservatively financed, with an adequate margin of safety, a trusteed plan is not the safest approach for a small group. The fewer the number of workers covered by the plan, the less reliable, over the short run, are the actuarial estimates on which the contributions and benefits are based and the wider is the degree to which the actual operating experience of the plan may depart from these estimates. The risk of depletion of the fund in some year in which benefit claims turn out to be particularly heavy is therefore greater than is the case with a large group.

The small group, where it cannot join with other groups to establish a broader membership base, is better advised to have its plan underwritten by an established insurance company. The insurance company bears the risks (protecting itself by including a margin of safety in its premi-

ums) and handles all the actuarial and clerical work required.

The question is frequently raised as to whether a given level of benefits will "cost more" under an insured plan or under a trusteed plan. In operation over a period of time, there should be no great difference between them, from the standpoint of comparative "real" costs. As previously pointed out, the real cost of a plan is equal to the benefits paid out less the interest earned plus the administrative expenses. Therefore, assuming the same level of benefits, the only way in which one system could cost more than the other would be through lower interest earnings or higher administrative expenses.

The rate of return on investments has an important bearing on the cost of a plan. As shown in Part III, a fraction of a percent of change in the rate of interest can bring about a sharp change in the net cost.

The following table shows the results of a recent study of investments of a group of "typical" pension trust funds, and the investments of all U. S. life insurance companies:

Distribution of Investments

Type of Investment	Pension Trusts (% of all investments)	Insurance Companies (% of all investments)
Corporation bonds	30%	36%
Government bonds	33%	25%
Preferred stocks	7%	3%
Common stocks	23%	3%
Mortgages, real estate, etc.	7%	36%
	100%	100%

Insurance companies are closely limited by law as to the extent to which they can invest in corporate stocks, and generally place a commensurately higher proportion of their investments in mortgages and real estate than do pension trust funds. Since they have somewhat greater flexibility as to types of investments, it is possible for a well-managed trust fund to yield a higher rate of interest than can be obtained through the average insurance company. In the case of the average bank-managed trust fund, however, the difference is not likely to very great.

A return of about 3% is the most that can be expected from an insurance company. One large union pension fund, by comparison, earned a return of 4.17% on its investments last year.

The profitability of an investment is determined by (a) the rate of interest or dividends earned on the investment, and (b) the increase or decrease in the market value of the investment. The basic problem is to achieve a proper balance between the desire for a maximum return, and concern over the safety and security of the value of the fund. In the investment of pension funds, particularly, safety is a dominant consideration, since they are designed primarily to guarantee a measure of security to their beneficiaries.

The small group may be able to do just about as well as it can, consistent with the over-riding consideration of safety, through an insurance company, since a small fund is more limited in the range of its safe investment opportunities.

The effective rate provided through an insurance company will be determined by the earnings realized by the insurance company on *all* of its investments. A trust fund, on the other hand, is self-sufficient. It can earn more, but will bear the full brunt of any losses.

As far as expenses are concerned, both methods involve certain necessary charges. A trusteed plan will have to bear the cost of actuarial, legal, accounting, and clerical services, as well as a management fee to the bank or trust company, if any. The cost of the same types of services is included in the premiums fixed by the insurance company.

These premiums also include certain other expenses of the insurance company which a trust fund may avoid. Among these are commissions paid to agents, state premium taxes, promotional expenses, surrender charges, *etc.*—besides the fact that insurance companies are not in business for their health and expect to cover all their costs and still take a profit out of their operations.

These expenses, plus a margin for "contingencies", are reflected in the "load" factor—usually [illegible]—which the insurance company will add to its estimates of the contributions required to fund the benefits in arriving at the total premium rate for group annuities. Generally, about 3 or 4% of this

is pure administrative expenses and the rest is for a contingency reserve fund.

A trust fund, if it is large enough, may be able to avoid certain expenses and control the expenses it does incur in such a way as to keep pure administrative costs below what would be possible under an insured plan, but the difference is not likely to come to any very large amount. Expenses will probably run in the neighborhood of 3% or so. A small group would probably do just about as well from the standpoint of administrative expenses through an insured plan, since the smaller the group the higher are the actuarial, clerical and other expenses likely to be as a proportion of the total income from contributions.

To sum up, the potential cost advantages of trust fund administration, over insurance company administration, are more apt to be realized where a large group of workers is involved, than in the case of a small group.

Insured Plans

One reason why many are led to believe that insurance company plans are likely to be much more costly per unit of benefit than trusteed plans is to be found in the difference in *initial* cost estimates—as distinguished from the real long-run cost—that may be found when the two are compared.

The cost estimates on which the contributions and benefits of a trusteed plan are based can be as conservative or as closely-figured as the actuary and the parties desire. Full account can be taken, in advance, of all of the probabilities. Full discounts can be taken for such factors as turnover and deferred retirements, and more liberal assumptions can be made—if the circumstances and characteristics of the group covered appear to justify it—as regards mortality and life expectancy.

Under insured plans, on the other hand, no discount is taken for turnover and deferred retirement in the computations on which the premiums are based. Conservative mortality tables and interest rate assumptions are used. If, for example, the 1937 Standard Annuity Table is used to figure the mortality rate among workers in a particularly hazardous occupation—such as coal mining—where the mortality rate is likely to be substantially higher and the life expec-

tancy lower than set forth in that table—the cost will be overstated.

In addition to using conservative assumptions, the insurance company will make some additional provision for "contingencies" or possible adverse experience. Since it bears the risks (whereas a bank or trust company does not) the insurance company will thus deliberately overstate the cost probabilities, thereby assuring that it will have more than enough on hand out of the premium payments to take care of its obligations.

If, for example, in working up cost estimates for a trusteed plan, the actuary assumes that the average worker will elect to retire at age 67, instead of 65, the cost estimate will be about 85% of the comparable insurance company premium rate based on retirement at age 65. A turnover discount might make it, say, 75%. A different assumption as regards mortality could bring it down to 60%.

A group that sought cost advice from an actuary and premium quotations from an insurance company might conceivably, therefore, get a figure from one that would be about 60% of that submitted by the other. Nevertheless, over a period of years, the cost experience may be roughly about the same.

The difference would be made up of dividends or rate credits paid back by the insurance company, which would not be realized from the trust fund set up on the basis of the actuary's estimates. For example, the insurance company will, instead of discounting for turnover in computing its premiums, take care of separations by refunding to the employer a "cash surrender value" of about 96% of the contributions he has made on behalf of the terminated employee. The employer will get additional dividends—which he can apply as payment on subsequent premiums—if the mortality rate turns out to be higher and the life expectancy after retirement lower than the rates used in computing the premium. He will also get credit for deferred retirements, and if the earned interest rate is higher than was assumed.

The premium costs quoted by an insurance company will not necessarily, therefore, give an accurate indication of what the actual cost of an insured plan is likely to be. The

figures submitted by an insurance company will consequently be of limited value when costs are discussed in collective bargaining, unless they are interpreted and modified in the light of all the probabilities.

This is an important point to bear in mind in the course of negotiations—particularly in a situation where an employer indicates his willingness to guarantee a level of benefits which, according to insurance company premium rates, will cost X cents an hour, but is not willing to commit himself to a fixed contribution of X cents per hour to a fund from which he could get no rebates.

If, on the other hand, the employer is willing to commit himself to a certain fixed X cents per hour contribution to finance a pension plan with such benefits as that amount of money will provide, then another choice emerges. That fund can be used to pay premiums under an insurance company plan, if a very conservative system of funding is desired, or it can be used to set up a self-administered plan with the benefits based on a consulting actuary's computations, which may be as conservative or as liberal as desired.

If used to set up an insured plan, the initial level of benefits will be about the minimum obtainable, but may be increased later as the fund realizes dividends and rate credits which can be used to purchase additional benefits. Under the self-administered plan, the initial level of benefits may be as conservative or as liberal as desired, within the limits of "actuarial soundness".

The basic difference between the two methods lies in the *timing* of cost experience. Under a trusteed plan, the manner of funding and the timing of adjustments for actuarial gains are under the control of the union and the employer. Under an insured plan, these important matters are within the discretion of the insurance company, rather than the parties themselves.

As a matter of fact, the dividend record of most insurance companies has not been good. Even where experience has been favorable enough to justify the repayment of the actuarial surplus, they have been slow to do so. They have not shown the same reluctance, however, where an increase in premium rates was involved.

Group Annuity Plans

The group annuity is probably the most common type of insured pension plan. Under such a plan, a master contract covering the entire group is entered into with an insurance company. The group annuity cannot ordinarily be used to cover groups of less than 50 members (25 in some states). Enrollment of employees into the plan is done on a group basis and no medical examination is required.

Plans of this type are designed chiefly to provide straight pension benefits at a relatively low cost. Since death benefits are usually not provided as a part of the pension plan, the full mortality discount can be taken in computing the cost.

There is no advance discount for severance, but a rebate of from 92% to 96% of the premiums paid on behalf of the individual who leaves the group is allowed. The difference between the rebate and the full premium is a "surrender charge" which the insurance company retains as an allocation of a portion of its administrative expenses.

Since severance is not discounted in advance, the inclusion of a "vesting" clause in the agreement, whereby workers who quit or get fired would keep the paid up annuities purchased for them up to the time of separation, would involve no increase in the original premium charge. It would only be reflected in the reduction or elimination of the 96% rebates which the employer would otherwise get back from the insurance company, and which he could use to reduce his future premium payments.

Group annuities are usually funded by the "single premium" method (see Part III). Under this method, there is purchased annually for each employee a unit of deferred annuity benefits to cover the pension rights attributable to the employee's service for that year. Each year's purchase of units of annuity coverage is a completed transaction, and upon retirement the sum of all the separately purchased units of deferred annuity will equal the total amount of pension payable to that employee.

Since each year's premium is a completed transaction for the unit of benefits earned in that year, the per-unit premium for an individual in the group will increase annually by reason of his age change. Whether the general group average cost will increase or decrease from year to year (other

than through a general change in premium rates) will depend upon the average age of the group and the distribution of ages within the group.

The premium rates applicable to the various age brackets are usually guaranteed for the first five years that the plan is in operation, but thereafter the insurance company may change them from year to year. If rates are increased, the new rates will apply on additional annuity units purchased for all workers covered including the original members of the plan as well as new entrants.

The most common type of benefit formula found in group annuity plans—because it works in well with the single-premium, unit-purchase method of funding—is one in which the benefit is a certain percentage of pay for each year of service. For instance, the formula may be 1% of average pay for each year of service at age 65. A worker entering the plan at age 30 will, under such a formula, earn a total pension of 35% of his career average pay by the time he retires. The group annuity can, however, be used just as readily with a formula providing a flat dollar amount of pension benefit for each year of service to retirement.

The group annuity plan will usually give the retiring worker the option of taking his pension in one of several forms. Among the forms he may chose is a "joint and survivors" annuity, under which a pension, lower than that which he would otherwise have received, is paid during the retired worker's lifetime and the subsequent lifetime of a beneficiary designated by him, if the beneficiary survives him.

Deposit Administration Plans

Deposit administration plans are a combination of certain features of trusteed plans and group annuity plans. They were developed by insurance companies in an effort to meet the criticism, as to inflexibility and high initial premiums, frequently directed against insured plans.

If the funds accumulated under a trusteed plan were used to purchase paid-up life annuities for workers covered by the plan when they retired, (a practice known as "terminal reinsurance"), all the essential characteristics of a deposit administration plan will be present in such an

arrangement. The main difference is that the insurance company acts as the trustee of the funds being accumulated before annuity purchases are made, instead of a bank, trust company or Board of Trustees.

The insurance company will guarantee a certain modest minimum rate of interest on the fund, but will assume no further risks and offer no guarantees as regards the actuarial soundness of the fund or its ability to meet the benefit requirements of the pension plan. It will offer these guarantees only with respect to the annuities actually purchased from the fund when an employee retires.

Under a deposit administration plan, the employer makes his payments to the insurance company. The insurance company holds the money at a guaranteed rate of interest, plus any additional interest which may be warranted, in the view of the insurance company, by the profitability of its investments. The money is not used at the time it is paid in to purchase units of paid-up deferred annuities as in the case of a group annuity plan, but is kept in a single unallocated fund.

As each employee retires, enough money is taken out of the fund to buy him a paid-up life annuity in the full amount of the pension benefit he has coming to him under the plan. The premium rate paid for this annuity at retirement is the same as the rate applicable to the unit purchased for a worker at age 65 under a routine group annuity plan. The insurance company assumes the obligations of an insurer only with respect to the annuities finally purchased.

This arrangement makes possible greater flexibility in the choice of benefit formulas and other provisions of the plan and in the computation and handling of the contributions required to finance the plan. Since the insurance company assumes no risks with regards to the amount deposited and held before annuities are purchased, cost estimates and contributions to the fund can be on as conservative or liberal a basis as may be desired, within such minimum and maximum limits as may be set by the insurance company.

The insurance company assumes none of the risks until employees actually retire. If the amount in the fund is not sufficient to purchase annuities in the amount required by the benefit terms of the plan, the employer will have to make up the difference.

Deposit administration plans are available only to large groups of workers, the minimum being about 500.

Individual Policy Plans

Where the group is too small to permit the use of a group annuity plan, the only means by which a pension plan can be insured—unless the group combines with other groups for that purpose—is through a system of individual annuity policies. This method is also adaptable, though costly, to any group where substantial subsidiary benefits—such as death, severance and survivors benefits are desired.

Under group annuity and self-administered plans, death benefits, where provided, are usually handled separately from the funding of the pension program, through a group term life insurance program set up apart from the pension plan. Under individual policy plans, however, death benefits are provided as an integral part of the funding of the pension plan.

One or more separate policies are purchased for each employee covered by the plan. The total amount of the policies held for each employee is based on the pension to which it is expected that the employee will be entitled when he reaches retirement age. A minimum number of employees in the group is not required.

Individual policies are funded on a level annual premium basis—that is, each year's premium is the same as the first premium, from the beginning until retirement (see Part III). It does not change yearly with changes in age, as in the single-premium approach used in group annuities. The cost is not discounted in advance either for mortality before retirement, as in a group plan, or for severance. This makes possible the payment of substantial death and severance benefits within the scope of the high initial premium cost.

Under a straight individual annuity, the death benefit is limited to a return of all the premiums paid on the worker's behalf, to his beneficiary. However, insurance companies frequently require that a certain amount of life insurance be carried in conjunction with this. Under most of these plans, therefore, a worker is usually eligible for a $1,000 face amount of life insurance benefit in case of death before retirement for each $10 of scheduled monthly retirement income.

Since considerably more than $1,000 must be accumulated by age 60 or 65 in order to purchase $10 monthly for life, the cash value will exceed the face amount of the insurance in the later years of the life of the policy. In this case, the cash value is payable in the event of death, instead of the face amount.

For administrative purposes, a pension trust is usually used in connection with individual annuity plans, the individual policies being held by the trustees. This type of plan is therefore commonly called an individual policy pension trust.

One drawback to the individual policy system is that the insurance company will usually require some evidence that the employees to be covered are insurable, and may call for complete medical examinations before agreeing to underwrite the life insurance part of the program. The company reserves the right to reject those who fail to meet the health requirements.

For workers who cannot pass the medical, the company offers a straight retirement annuity contract, under which the death benefit is limited to a return of the accumulated reserve. Some insurance companies also will not offer life insurance benefits to employees in hazardous occupations.

The form of death benefits after retirement under the plan will vary from one company to the next, but each company will usually offer only one standard form of payment. The most common practice is to guarantee payment of the pension for 10 years even though the retired employee dies witnin that period, and for life thereafter. In case of death after retirement but before the 10 years have passed, the monthly pension is paid to the beneficiary for the balance of the 10 year period, or the value of the remaining installments is paid in a lump sum.

Another common form is the "modified refund" annuity. Here, if death occurs after retirement, the monthly payment is continued to the beneficiary until the total payments equal what the cash value was at the time of retirement.

The rebate that employers stand to receive under a nonvested plan in the event of employee withdrawals is considerably less than in the case of group annuitles. As compared to the 96% return under a group annuity system, the employer may only stand to recover from 25% to 50% of

the premiums paid under an individual policy plan. Since the employer can recover relatively little in cash surrender values under these plans, most individual policy plans contain comparatively liberal vesting provisions, under which employees retain their accrued pension rights when and if they leave the group.

From the cost standpoint, for a given amount of pension benefits, individual policy pension plans are much more expensive than group annuities. The reasons for this should be fairly obvious from a comparision of the terms and different methods of funding of the two types of plans. Individual policy plans usually provide much more in the way of subsidiary, non-pension benefits—all of which, naturally, costs more. The level premium method of funding, with no discount for mortality, results in a much higher initial premium cost than the single-premium method used in group annuity systems.

In addition, insurance agents get a much higher commission for the sale of individual policy plans than they do in the case of group annuities. The load factor for administrative expenses and contingencies is also substantially higher. Of course, as in the case of group annuities, some of the amounts charged for contingencies will be returned if experience is sufficiently favorable, in the eyes of the insurance company, to warrant it.

Once the premium rates are established for a given policy, they are fixed and guaranteed by the insurance company against any future increase (the main reason for the higher load factor for contingencies). Higher premium rates may be charged for additional policies purchased in the future, however.

Part VI

BENEFIT PROVISIONS

The benefit schedule of a plan—together with the provisions as to eligibility, service, etc., which condition those benefits—will determine the manner in which the values of the plan are distributed among the various workers in the unit "covered" by it. The formulation of this benefit schedule presents a union with another of the many basic choices involved in the consideration, negotiation and establishment of a pension plan—the choice as to who gets what, when and how much.

Types of Benefit Schedules

There is no such thing as a "typical" or "standard" pension plan benefit formula. Almost every plan will have some variation of its own, designed to serve some purpose peculiar to the particular situation involved. It is not possible to point to some union's plan and describe the benefit provisions as "representative" of what is being done in industry today.

These wide variations are found in both collective bargaining plans and in "unilateral" plans. Actual practice reflects the virtually limitless nature of the possible combinations and variations.

In their bare essentials, however, most of them are modifications of one of the following four broad types:

(1) Benefits related to both earnings and service (Example: 1½% of pay for each year of service from entrance to retirement).

(2) Benefits related to service, but not to earnings (Example: total pension equals $3.00 per month for each year of service to retirement).

(3) Benefits related to earnings, but not to service (Example: 50% of pay upon retirement).

(4) Flat benefits with no relation to either earnings or service (Example: $100 a month upon retirement, regardless of earnings or service).

Of these four broad possibilities, variations on the first two types are by far the most common. However, relatively few plans will fall entirely within one particular category—though the main features of a formula may be along the lines of one of these types, it will frequently include certain aspects of another. For example, the basic formula of a plan may be related to both earnings and service, but this formula may be modified by the inclusion of a minimum pension provision based on service but not earnings, or based on neither service nor earnings.

Or, the pension benefit may reflect earnings and/or service, but only up to a certain point, after which additional earnings and/or service cease to have any effect upon the amount of the pension. Whether recognition should be given to earnings or service; the extent, if any, to which they should be recognized; and the consideration that is to be given to minimum needs are all within the control of the parties. The formula can be constructed and adjusted in any number of ways to compensate for these factors.

Percent of Pay Versus Flat Money Benefits

A number of arguments are commonly heard in favor of a system which ties benefits directly to earnings. It is said that a worker will tend to judge the adequacy of his pension in relation to what he had been earning before retirement and what he would have been able to earn if he continued at work. If retirement is to be encouraged or made relatively easy, therefore, the benefits should bear some reasonable relation to his normal earnings.

Also it is held that higher-paid workers have become accustomed to a higher standard of living, and that they should not be required to reduce their scale of living too far below what they have become used to. Thus, a $100 pension might be all right for a worker earning $150 a month, but completely inadequate for a worker earning $400 a month.

On the other hand, the diversion of funds to provide a higher pension for higher income workers will leave less available for the pensions of low-paid workers. Since another dollar is of greater value to the man who has few dollars than the man who already has many, the loss suffered by the

low-income worker will be much greater than the added value of the higher benefit to the high-income worker.

The lower-paid groups are already close to the bare subsistence margin. To reduce their living standards still further would involve a greater proportionate amount of hardship than it would in the case of the high-paid worker, whose scale of living is not limited to the bare necessities. Furthermore, the higher-paid worker will have been better able to set something aside out of his pay before retirement with which to supplement his pension.

It is only where a fairly wide range exists between the wage rates paid for different categories of work within a group that this question really becomes much of a problem. Where rates are roughly uniform, everybody that qualifies in all other respects will get about the same amount in pensions, regardless of whether a pay-related formula or a flat dollar formula is used.

It would also work out about the same in a situation in which it could be assumed that all of the low-paid workers are in the younger age brackets and that their pay will steadily increase as they grow older—so that their average pay over the years would wind up at about the same level.

In cases such as these, however, no real purpose is served by using a pay-related formula. It would be much simpler to use a flat-dollar amount schedule, since the same end result would be achieved either way. Record-keeping would be much simpler and less expensive, and the actuarial service required would probably be less elaborate.

In other cases, where some recognition of higher pay is desired if it can be accomplished without too much hardship for the lower-paid worker, a compromise approach can be worked out with very little difficulty. A minimum benefit provision, guaranteeing that the pension will not be less than a certain flat dollar amount, may be included as a part of a pay-related formula. Or the formula may use a sliding scale, so as to provide low-paid workers with a higher percentage of pay than the high-paid workers.

The amount available from Social Security might have a bearing on the selection of a percent of pay formula. Since the Social Security program provides a higher percentage benefit to lower-paid workers, a private pension formula

providing a more or less uniform percentage of pay would, when received on top of the Social Security benefit (and not offset against it), result in a total percentage benefit which would be scaled upward for the lower-paid groups.

A percentage of pay approach is not the only way in which a worker's past earnings can be recognized. It can also be done under a flat-dollar-amount formula, by simply including an additional factor to compensate—to any desired extent—for higher earnings. For instance, a flat benefit formula used by one plan provides a pension of $60 a month after 20 years of service, regardless of earnings. Up to $5 may be added to this amount for workers whose earnings exceed a certain level.

Career Average Earnings Versus Final Earnings

In drawing up any plan in which the benefit formula is related to the worker's earnings during his working life, a question arises as to the level of earnings to be used as the base for computing the amount of retirement benefits. In some plans, the benefits are expressed as a percentage of annual average pay received by the worker during all the years of his participation in the plan ("career average" base). In others, the benefits are based on the worker's annual pay during the final years of his participation in the plan.

In the latter case, the period used as the base is usually the 5 or 10 years just prior to retirement. Sometimes this is expressed as the average of the 5 highest paid years in the 10 years before retirement. In other cases it is expressed as the highest single year before 5 years prior to retirement. A number of variations are possible.

Generally speaking, a benefit formula which uses the final years before retirement as a base is preferable. The same percentage formula will yield a higher benefit if based on final earnings than on a career average—since (a) higher seniority, skill, and experience will tend to move workers to higher-rated jobs in the course of time, and (b) wage scales generally are higher now than they were 15 or 20 years ago, and will be still higher in the future.

Furthermore, it provides a much more logical base, from the standpoint of the purpose of using a pay-related formula

in the first place, since it will be more closely related to the level of pay and the cost of living to which the worker has become accustomed at the time he begins drawing his pension. A plan which provides a pension of 50% of average career earnings after 25 years of service may actually mean for most of the workers a pension of only about 35% or less of what they were making at the time of retirement.

Of course, under a plan which bases the pension on final earnings, the employer should be watched rather carefully to make sure that he does not, by some pretext, seek to demote, or transfer to lower-paying jobs, workers who are approaching retirement, in order to reduce the formula base and thereby his costs. A "highest 5 of the last 10 years" average would overcome this possible objection, in most cases.

In computing the cost of a percentage formula plan based on final earnings, the actuary may make an assumption as to what the future course of wage levels in the plant will be, in order to determine how much in the way of benefits will have to be currently funded. Or, he may use current pay scales and take account of later changes through later adjustments, when the actuarial experience of the plan is rechecked. In the latter case, the increased cost deriving from higher wage levels may be more than off-set by actuarial gains resulting from mortality, interest, deferred retirement or severance experience more favorable than that which was assumed—in which event no adjustments in contributions may be necessary.

Even in plans where future service credits are based on career average earnings, the past service formula is nearly always based on earnings during the year before the date the plan was set up—to avoid the necessity of having to check back through pay records, covering a period of 30 years or more, which may no longer be in existence.

Service and Eligibility Provisions

The service and eligibility requirements of a pension plan are just as important as the benefit formula itself in determining how the benefits are to be distributed among the members of the work force covered. They should always be considered in relation to each other, as parts of a

whole. A liberal benefit accrual formula can be greatly offset by a provision which limits the number of years of service that can be counted.

These restrictions can be imposed by putting a direct limit on the number of years of service which can be credited toward retirement (for instance, where the formula provides a percentage of pay for each year of service up to a maximum of 30 years). Or they can be imposed through age and service restrictions upon eligibility (for instance, a plan which requires the attainment of age 30 and 5 years service as a condition of eligibility).

Obviously, a plan which has both an age and a service condition is more restrictive than one which has just one or the other. For example, a 20-year-old worker would have to have 10 years of service before qualifying under an age-30-with-5-years-service plan; and a new worker aged 30, could not qualify until he reached age 35, under the same plan.

There is no real difference between a plan which places a specific limit of, say, 25 years upon the accrual of benefits, and a plan which places no specific maximum limit on pre-retirement service credits, but which requires the attainment of age 40 as a condition of eligibility for coverage.

These restrictions are frequently imposed as an indirect means of discounting the cost of the plan for withdrawals, or severance—it being assumed that most of the withdrawals will take place among the age and service groups excluded from the plan.

Where the funds available for the establishment of a plan—or the employer's willingness to pay—are limited, restrictions of this type may be used as a means of providing short-service workers, and older workers presently on the verge of retirement, with higher immediate benefits than would be possible if the available funds were spread over a wider area, so as to make earlier coverage and higher benefits available to young and long-service workers.

This might involve a choice between, say, a 2% per year plan with a 25 year limit, and a 1-5/8% per year plan with no limit on credited service. The older, short-service worker will make out much better under the former plan. The latter would make higher benefits available to younger and longer-service workers.

This is a practical problem which unions negotiating a retirement plan are very likely to encounter. If the union starts out with a proposal for a 2% per year plan with no limit on service accruals, for instance, and negotiations reach the point where some modifications on the original proposal must be made, the question arises as to just where it would be best to trim. Should the percentage amount be trimmed down, or should the percentage be retained and the cost-trimming accomplished by agreeing to a maximum limit on the amount of service that can be credited under the formula?

The cost of the two alternatives might work out about the same. It cannot be said flatly that one approach is necessarily any better than the other, except in relation to the particular needs and desires of the group of workers concerned with the choice. One approach might be more desirable for an older, established group. The other might be better for a relatively young group employed in a new plant, where most of the workers are a long way from retirement and few have much in the way of past service to their credit.

The union should, however, clearly recognize the different benefit effects of these variations, and should know what it is doing when it makes a choice between them. The final formula should be the product of a conscious election, seeking to make the best use of the available funds, in the light of the major benefit needs of the group involved.

Any eligibility and service limits should be designed to serve this union purpose and not put over as an employer gimmick to undercut the benefits of all. Many employers have used this device in connection with unilateral plans as a way to buy a high percentage formula at a low price, so as to create a cheap illusion of liberality.

The benefit schedules of most plans make no distinction between past and future service credits. However, some percent-per year type plans do make such a distinction—either by applying a lower percentage to past service credits, or by limiting the number of years of past service that can be credited.

The arguments commonly advanced in defense of this approach are (1) it serves to reduce the heavy initial burden

of the past service liability, makes more funds available for future service benefits, and makes it easier to set up a plan, particularly in the case of an older group; and (2) the past service formula is based on the previous year's earnings, even under plans that base the future service formula on career average earnings, so that a lower percentage would yield an equivalent benefit.

In considering the question of past service treatment, unions should bear in mind the fact that the men who will retire over the next ten years or so will have to derive the larger part of their benefits from their past service credits. Consequently, over the course of the near future it will be the past service rather than the future service formula (where the plan makes a distinction between them) which will determine how well the plan pays off in actual practice.

Defining "Service"

Unless great care is taken in writing the agreement provision covering this point, many retiring workers may find their pensions to be considerably less than they had expected, owing to a narrow definition of the term "service" in plans which relate the amount of benefits to length of service. Particularly in plans which make no provision for the retention of vested rights by the worker in case of lay-off, quits or discharge, a loosely-worded clause governing "credited service" may put a potential whip in the hands of the employer, or enable him to reduce his cost obligations at the expense of the benefits anticipated under the plan.

Under most single-employer plans, service credited toward retirement benefits is required to be "continuous" from the date of membership in the plan to the date of retirement. If broken, only the last continuous period of service under the plan counts, unless some further provision for the retention of vested rights is included.

In the typical negotiated plan, continuous service is not considered to be broken by leaves of absence, sickness and accidents, military service, lay-offs, dismissal followed by subsequent reinstatement, strikes or lockouts. In most cases, however, absences for these causes in excess of stated periods, while not considered a break in continuous service so as to involve the retroactive loss of service credits already

accumulated, are deducted in computing the total length of service.

Provisions governing non-work time counted as credited service are usually geared to the seniority clause in the collective agreement. Under such an arrangement, continuous service, for retirement plan purposes, accumulates in the same manner as seniority does under the agreement and service credits are retained as long as seniority rights are.

Part VII

RELATING BENEFITS AND COSTS

Either the level of benefits or the cost of financing that level of benefits will be subject to variation. To say, at the time a plan is set up, that X cents per man-hour worked will finance benefits equal to Y dollars a month after 25 years of service means only that it would probably be safe enough to start out with such a schedule of benefits until experience gives a clearer picture of what the actual cost is going to be.

Either Benefits or Costs Will Vary

It would be a very rare coincidence if the actual cost as revealed by operating experience were to turn out to be exactly equal to the advance estimate of cost. Nor will cost experience over a given period of time necessarily be the same as the cost experience of the plan over a later period of time.

As previously discussed, the cost of a given level of benefits, and the amount of benefits that can be provided with a given contribution will depend upon: (1) age and sex distribution of the work force; (2) mortality experience; (3) interest earnings; (4) severance or turnover (where vesting is not provided); (5) age at which workers elect to retire; (6) wage rates (where benefits are related to earnings).

A change in any of these factors will alter the cost of maintaining a given benefit schedule. And each of these factors is variable. If the average age of the work force increases, the cost of funding the plan will go up; if more workers stay on the job beyond the normal retirement age, the cost will go down; if interest earnings are greater than expected, the cost will go down; and so on

Accordingly, if the contributions turn out, over the course of time, to be too low in relation to the benefit schedule established, then the union will either have to accept a reduction in benefit payments or it will have to make another trip to the well and negotiate an increase in employer contributions. If, on the other hand, the employer guarantees the benefits but not the amount of his contributions, then

an "actuarial loss" will automatically require him to increase his payments. "Actuarial gains" may yield him substantial savings or rate credits which will serve to reduce his contributions well below the level of his initial outlays.

Thus, under a plan in which the benefit schedule is fixed and guaranteed for an extended period of time, some allowance must be made for variations on the cost end. Where the employer agrees to a fixed and guaranteed contribution, but does not guarantee the benefits, some margin of flexibility with respect to benefit payments must be provided for, if these contributions are to be fully employed for funding purposes.

This does not mean that you cannot set up a plan that is fixed and guaranteed at both ends, at least for the duration of the agreement. It just means that you should be very careful in doing so.

If the plan undertakes to guarantee both the contributions and a certain schedule of benefits, then the benefit schedule or the cost calculations should be such that some money will be left over apart from that required for the routine funding of the plan. This can be done either by using over-conservative actuarial assumptions in determining the relation between cost and benefits, so as to deliberately over-fund. Or it can be done by using reasonable actuarial assumptions and by adding to that a certain extra provision for contingencies.

It should be noted that insurance companies—who will guarantee a certain benefit schedule at a certain level of premiums, for the first five years, at least—use both of these safety precautions. They use hyper-cautious actuarial assumptions, and they also make provision for contingencies, through the "load factor." In other words, they wear a belt and suspenders too.

Fixed Contribution Versus Fixed Benefit Plans

Most existing industrial plans—particularly if unilateral plans are included—established in a single-company or single-plant situation are of the so-called "definite-benefit" type. That is, the employer guarantees a certain amount of benefits, determined by the particular formula or schedule set forth in the plan, but makes no commitment as to the exact amount of his contributions.

The employer simply guarantees to pay whatever the cost of the plan turns out to be. How much he pays and the method in which he pays it is determined by the funding system used and the amount of the dividends and rate credits he gets back from the insurance company or through actuarial checks on the fund. He gets the benefit of all actuarial gains and must make up the difference in case of any actuarial losses.

Many single-employer plans and practically all multi-employer plans, on the other hand, are based primarily upon a fixed and guaranteed rate of employer contribution payments into a pension fund. This approach is inherent in the nature of collective bargaining situations in which a number of employers are party to a single master agreement with a union, inasmuch as it is necessary if the uniformity of wage scales and other conditions established by such an agreement is to be maintained. A fixed-benefit basis in such a case could mean wide variations in the cost of a given level of benefits among the different employers, due to variations in average age, etc.

Under these fixed-cost plans, negotiations are conducted on the basis of how much the employer is to pay into the fund. Once the amount is agreed upon and set forth in the contract, the benefit structure is decided upon, on the basis of what the funds available can provide. Usually some provision for the modification or adjustment of benefit schedules in accordance with experience is included, either by giving the Trustees some area of discretion in this respect, or by calling for renegotiation of the provisions of the plan, or some other arrangement.

An agreement calling for a fixed contribution to a pension fund does not, of course, rule out the possibility of funding the plan through an insurance company. This is, in fact, sometimes done in such plans. A trust fund may be set up as an agency for the collection of the contributions. The Trustees may then "reinsure" the plan by using the money to pay insurance premiums on a current basis, or it may invest the money and use the services of an insurance company only when a worker actually retires, through "terminal reinsurance"—that is, by taking money out of the fund and buying the worker an immediate life annuity at the time he retires.

Where the situation is such that either a definite-benefit or a fixed-cost approach can be used with equal facility, a union should give careful consideration to all the pros and cons of both before coming to a decision.

Under the definite-benefit approach, the union has fewer administrative worries and is not directly answerable as to the adequacy of the funds. If it commits the employer to the principle and practice of full advance funding, it has the assurance that the benefit structure will be maintained unimpaired, even if cost experience should be less favorable than anticipated.

The members will be able to tell pretty well what they are going to get when they retire, and will be sure of getting it *if* they meet the conditions. The emphasis is placed on benefits, which is the chief concern of the worker approaching retirement. The union can concentrate its collective bargaining energies on benefits without having to concern itself too much about the cost effects.

On the other hand, the benefit approach has certain serious drawbacks. Mapping out all of the details and provisions of a pension plan across a bargaining table can be a complicated and harrowing proposition, that can drag on for weeks and even months.

It can be even more difficult than the drafting of an original collective bargaining agreement after a plant is first organized, because it involves more technical details with which both company and union negotiators are less likely to be familiar. The "experts" get called in and the union finds itself up against a white-collar goon squad of company lawyers, accountants, actuaries, etc. Collective bargaining gets away from the control of the men who are going to have to live with the agreement that finally emerges.

In insisting upon an open-contribution, definite benefit type of plan, the employer is likely to observe that the benefits are the main thing and how much he puts into the plan or gets back from the insurance company is no proper concern of the workers. Nevertheless, the union will find that when it proposes some desirable modification of the terms of the plan or improvement in its benefits, the employer will be likely to say that it may be all very fine, but it costs too much.

Even though he may be unwilling to commit himself to any specific amount of contributions, the employer will tend to use the cost argument as his major crutch in negotiations. In other words, regardless of whether or not the plan is to be on a fixed cost or a definite benefit basis, negotiations will tend to center around the factor of costs.

The quality and character of the cost estimates then becomes a matter of real concern to the union negotiator. Here the employer has an advantage. In seeking authority to back up a deliberate and gross overstatement of what a particular benefit feature will be likely to cost him, he will find an army of actuaries and insurance agents at his beck and call—ready and eager to perform that service for him. Insofar as they are intimidated by such estimates, and are unable to effectively challenge them, union negotiations will suffer the disadvantages of the cost approach, and none of the advantages.

If the employer thereupon funds its plan at the same conservative cost rate as he used for bargaining purposes, he will, before too long, get back a substantial share of that cost—a share that might have gone for higher benefits—in the form of actuarial gains, dividends or rate credits.

Under a fixed-cost approach, the union will have to assume a greater degree of responsibility for the adequacy of the funds in relation to the benefits which those funds are to provide. The fund, rather than the employer, will have to bear the risk of adverse experience.

On the other hand, the pension fund itself, and not the employer, will realize the full benefit of all actuarial gains and will get any dividends, or rate credits. These can then be used to increase benefits for the members, rather than to reduce the employer's costs.

This is not a minor consideration. If a good many of the definite benefit plans that have been set up in recent years had been established on a fixed contribution basis, according to what the companies involved maintained it was going to cost them, they would be able to provide a lot more in benefits today than they now do. In some of these cases, the employer's actual operating costs have been much less than half of their original cost claims.

Fixed-Contribution Ap[illegible]oach Simplifies Bargaining

From the standpoint o[illegible]egotiations, the fixed-contribution approach simplifies th[illegible]rocess of collective bargaining tremendously. No one ha[illegible]o be an expert to bargain on the straight question of h[illegible] much money the employer is to pay; negotiations can p[illegible]ceed in pretty much the same fashion as though a strai[illegible]t cash wage increase were at issue.

While it is advisable [illegible] have at hand at least a good rough estimate as to how [illegible]ch money will be needed for a certain level of benefits, al[illegible]he technical details of the plan do not have to be hammered out across the bargaining table. No elaborate actuarial stud[illegible]es need be made in advance, and no expensive experts need [illegible]e hired until the fund is set up —after which the fund, [illegible]ther than the union treasury, can bear the expense.

Once agreement has be[illegible] reached on the amount of the contribution, the construct[illegible]n of a benefit schedule and the [illegible]ould be much less difficult than in the case of a definite benefit plan. The union can then shop around for the best plan it can get that will fit the limits of the fund. Since administrative expenses are a part of the legitimate cost of the plan, an actuary can be retained at the expense of the fund, to draw up alternative propositions for consideration.

Since it cannot affect his costs, the employer should be less concerned about the details of the plan itself. Within the scope of the available funds the provisions can be tailored to the needs and desires of the members, rather than the employer's idea as to what would be good for the members if it didn't cost too much.

For its part, a union can afford to adopt a more conservative approach to the problems involved in the funding and benefit provisions of the plan when the contribution [illegible] definite and fixed. Since the money is there and since more favorable experience than that assumed in setting up the benefit schedule can serve only to increase the fund, making possible later increases in benefits, the conservative approach will involve no sacrifice of economic values by the membership

Part VIII

BASIC FACTORS IN PENSION NEGOTIATIONS

The ideal pension plan is seldom, if ever, attainable in a single step. A union first must usually decide which features are most essential to its purpose, leaving the frills to the future. The construction of a plan that is satisfactory in every way is the product of time, experience and subsequent negotiations over the years following the initial establishment of the plan.

The first objective should be to develop a sound underlying structure upon which these later improvements can be built. The particular methods by which this objective can best be accomplished will, of course, depend upon the nature of the particular group and the possibilities of the individual situation. However, there are certain basic considerations where the course of enlightened trade union action is reasonably clear. Probably the most important of these are (1) funding; (2) administration; and (3) the extent to which a worker's equity in the plan is to be protected.

Plan Should Be Fully Funded

In negotiating the pension agreement, the union should make sure that the plan will be adequately funded. A provision binding the employer to the payment of certain pension benefits is not sufficient. In definite-benefit plans, no less than in fixed-contribution plans, there should be an additional provision setting forth clearly the manner in which those benefits are to be financed through current contributions to a trust fund or insurance company.

The most desirable provision is one which obligates the employer to maintain the plan on a full advance funded basis; that is, through current contributions sufficient to finance the full amount of all future service credits as they are earned, plus an installment on the past service liability, large enough to assure that the past service will eventually be paid off in full. Anything less than this should be strongly resisted.

A pension plan that is not adequately funded hardly deserves the name. It offers little, if any, real security to the workers concerned. Pension payments are contingent

upon the continued profitable existence of the employing company. If the company fails, those who have not yet retired will lose all of their pension rights and those now drawing a pension will cease to do so.

An unfunded system may even be self-destructive. It depends entirely upon current income for the payment of obligations which have accrued in the past. A period of adverse business conditions could easily reduce the amounts available for pensions at the very time that pension requirements are at their maximum. The company may then be forced to the wall when, with a little more foresight and at even smaller net costs, it could easily have protected both itself and the rights of the workers involved.

Under a fully funded system, on the other hand, the company's obligations are stabilized and easily managed. It is free of the accumulated burden of past liabilities and need only concern itself with current ones. The pension fund itself is independent of the employing firm and does not depend upon the firm for its ability to meet all the claims that are entitled to recognition. If the firm goes out of business, the reserves on hand in the fund will still be sufficient to pay off all accrued pension rights in full.

Not only is funding essential to the plan's security and ability-to-pay—it is also a necessary condition precedent to the negotiation of a "vesting" provision, designed to protect the worker's earned pension rights against loss in case he quits or gets fired. Obviously, a worker can establish an equity, or vested right, in a pension system only to the extent that reserve funds have been set aside to cover his earned credits. An unfunded system can not provide vesting rights, because there is nothing there to vest.

Plan Should Be Jointly Administered

Unions should accept nothing less than an equal voice in the administration of the pension plan. This responsibility cannot safely be left to the employer. The rights and interests of the membership can only be given proper regard and protection where the union is in a position to exercise surveillance over the day-to-day operations of the plan.

Only through responsible participation in its administration can the union gain the insight and experience as to

the details of the plan in operation which will be needed to determine where future modifications and improvements are required. The familiarity with the plan gained in this manner will provide the best preparation for subsequent negotiations on the pension agreement, and will make it possible for the union to carry out those negotiations in an informed and enlightened manner.

The way in which this participation can be made most effective will depend to a large extent upon the type and the scope of the plan, its area of coverage, whether it is set up on a fixed contribution or definite benefit basis, and whether it is to be funded through an insurance company or a trust fund.

If a board of trustees is set up to receive the funds, supervise their investment or negotiations with an insurance company, direct the payment of benefits and adopt the working rules of procedure within the framework of the pension agreement, the union should insist upon equal representation on the board, with an equal vote. Any third parties represented in the management and operation of the fund should not be selected solely by the employer but should be acceptable to the union as well. Provision should be made for the use of the services of outside consultants, acceptable to the union, upon the motion of either party, so that the adequacy of the funds in relation to benefits can be determined from time to time.

Under a definite-benefit insured plan the details of administration will be less complex than in the case of trusteed plans. Nevertheless, active participation on the part of the union is still a basic requisite. With insured plans this can probably best be carried out through a joint union-management pension committee, which acts as a specialized grievance committee, interpreting the pension agreement and handling all issues that arise in connection with the operation of the plan, such as questions of eligibility for retirement, years of service, etc.

In all cases, the agreement should stipulate that full and complete financial and actuarial information on the status and operation of the plan is to be made freely available to the union. This should include data on insurance premiums paid out, and insurance dividends or rate credits received by the fund or the employer from the insurance

company. This will enable the union to keep close tabs on the actual cost of the plan in operation—which can vary considerably from the advance estimate of cost which may have been used in negotiating the plan, or the face amount of insurance premiums.

This will also make it possible for the union to enter subsequent negotiations with the same factual data at its fingertips as has the company. Any arguments over costs can then be disposed of by reference to facts equally available to both parties.

Plan Should Protect Workers' Earned Rights

Many—in fact, most—existing private pension plans are seriously deficient with respect to the protection they afford against the loss of earned pension credits in the event of lay-off, quits or discharge prior to a worker's actual retirement.

In all too many cases, the great majority of the workers who are ostensibly "covered" by a plan have little or no expectation of ever getting anything out of the plan, even if they live to the normal retirement age. In such cases, the only workers with a substantial chance of qualifying for any pension at all are those who have attained an advanced age after a "continuous" period of long and unbroken service with a single employer.

Where the scope of these plans is limited to individual establishments, and where workers have no vested rights in the funds contributed by the employer, broken service with different employers will deprive them of pension rights—even though they may have a long record of active membership in their union, and may spend their working lives in the trade or industry. While plans of this type may help to meet some of the immediate needs of a few of the older members of a union group, they offer little in the way of benefits to the majority of the members, and do little to help solve the broad national problem of economic insecurity and dependence among the aged.

Plans of this sort may fairly be said to serve more of a management purpose than a trade union purpose. They follow the pattern of the typical pre-collective bargaining unilateral "company" plan; set up as an instrument of, by,

and for management—out of "efficiency" and "personnel relations" considerations.

They offer the employer a cheap means of getting rid of superannuated workers, with a specious show of generosity. They give the employer a sort of invisible chain with which to tie workers to their jobs with a particular company, and to prevent them from bettering themselves elsewhere, through the promise of a pension plan if they stay and the threat of its loss if they leave.

To the existing penalty of job loss if a worker gets fired, a non-vested plan adds another double penalty, by imposing upon a discharged worker, not only the loss of his present paying job, but the loss of all the pension credits he had earned—or thought he had earned—through work performed in the past. He is thus penalized not only presently, but retroactively. This obviously places a powerful instrument of coercion in the hands of the employer—an instrument which has been described as "pension slavery."

This is the feature of these plans that insurance companies and pension consultants will generally stress in their efforts to sell them to employers. They do not usually say, in plain terms, that a non-vested plan is a good way for the employer to keep the most valuable and experienced part of his work force tied to their jobs at lower wages than they would otherwise have to pay. They prefer to say that such a plan will "reduce employee turnover," and thereby involve savings to the employer which will outweigh the cost of the plan. In other words, the worker will, through lower wages, buy the chain that ties him to one job. It won't cost the employer anything in the long run.

The idea that seems to underlie this line of sales talk—that "lower employee turnover" is a good thing—is essentially a reversal of traditional American principles. In the past, in this country, the efforts of workers to better themselves by changing jobs when more attractive opportunities opened up have generally been regarded as something that should be encouraged rather than discouraged.

"Lower employee turnover" may be a good thing for an individual employer. But it is not good for workers, nor is it something that unions should be interested in promoting—for it will inevitably tend to have a depressing effect on

wage levels. And it is not good for the economy of the country as a whole, which depends upon a high degree of mobility on the part of the labor force for maximum efficiency.

These plans may place a substantial degree of discretionary power in the hands of management, which seniority provisions and the union's ability to act in cases of discriminatory or unjustified discharge may or may not be able to counter effectively. Technological lay-offs, temporary shut-downs, slack periods, not to mention such devices as the provoking of quits or firing on trumped-up pretexts, may enable the employer to wipe out a large part of his financial obligations, and recapture much of his past outlay under a pension plan, and may cause workers—even those on the verge of retirement—to lose their pension rights.

Aside from the somewhat abstract question of the effect of a pension plan on the mobility of workers, there is a more direct consideration which argues against the type of plan which deprives a worker of his pension rights if he leaves a particular employer. That is the simple fact that the pension credits are properly his. He has paid for them through services performed, at a lower level of wages than he should have been able to obtain if the plan were not established—even where the plan was not deliberately negotiated in lieu of a direct wage increase.

It is the nature of pension plans as a form of deferred wage payment which argues most strongly in favor of the vesting of pension rights earned in the past. An employer cannot recapture any of the cash wages he has paid in the past to workers who quit or get fired. There is no reason why he should be able to recapture any of the deferred wages which workers may have earned in the form of funded pension credits up to the time of their severance. An employer who resists the inclusion of a vesting feature in the pension plan is looking for "something for nothing" in the form of the workers' full services at only partial wages.

The means by which the deferred wage principle can be most effectively established under a pension plan is through some provision for the protection of the members' rights in the plan in the event they are discharged, laid-off, or shift

from one employer to another. The manner in which this can best be done will depend upon the type of plan and the characteristics of the trade or industry.

Multi-Employer Plans

In many cases, a substantial degree of protection can be provided through the establishment of central craft-wide, industry-wide, or area-wide retirement funds, into which all of the employers under contract with the union contribute. This system has the further advantage of making it much easier, safer, and less expensive for the small employer with but few employees to provide pension benefits than would otherwise be the case.

Under such arrangements, continuous coverage and continuous accumulation of pension service credits is guaranteed to the members as long as they remain employed in the industry, craft or area covered by the agreement, even though they may have broken service with a number of different individual employers. Of course, they may still lose their pension rights if they leave the industry, trade or area.

This type of plan is most effective in the skilled trades, such as building construction, where there is a high degree of mobility on the part of the members between employers within the trade, but where relatively few workers leave to enter other trades or industries. The greater the number of employers who contribute to the fund, the greater is the degree of protection for the members. A fund set up at the national level, with all union employers in the country paying in, would accordingly provide a greater degree of protection than a fund set up on the local level.

Unions affiliated with the American Federation of Labor have pioneered in the development of multi-employer pension systems, under which union membership or employment within the covered area of the trade or industry—rather than long and continuous service with an individual employer—is the basis upon which eligibility for benefits is determined. Examples of pension funds of this type are those negotiated by the International Ladies' Garment Workers' Union, AFL, with employers in the women's garment industry; by the International Brotherhood of Elec-

trical Workers, AFL, with employers in the electrical contracting industry; and by the International Longshoremen's Association, AFL, with stevedoring contractors. Under these plans, all of the employers covered by the agreement with the union contribute a like amount into jointly-administered central funds, from which benefits are paid out to workers who qualify by reason of union membership and/or employment with one or more of the firms which contribute to the fund.

Single-Employer Plans

Where a plan is negotiated on a company or plant-wide basis, through a single employer, the workers' equity can be protected through the inclusion of a "vesting" provision in the pension agreement. Such a provision will enable the worker to take his accumulated pension rights with him when he moves from one job to another, in the form of paid-up annuities which will begin to pay off when he reaches retirement age, or a guaranteed credit to his account in the pension fund, through which he will begin to draw a pension proportionate to his service with the company upon reaching the retirement age.

This type of protection is most effective in employments in which workers are likely to remain with a particular establishment long enough to accumulate an appreciable amount of service credits, but where they frequently shift to other trades or industries when and if they leave the establishment.

In practice, vesting may include all of the retirement credits that have been accumulated by a worker, or it may be restricted at first to a part of the pension rights. Vesting may take place when the employee enters the plan, or it may be delayed until certain age or service qualifications have been met. After vesting takes place, a worker can leave the company without losing any vested part of his accumulated pension credits.

Obviously, the best plan is one which provides for full and immediate vesting. Particularly where the plan itself attaches certain age or service qualifications for membership in the plan, there is no legitimate excuse for any

further restrictions upon the time at which vested rights are established.

If it is necessary, however, to compromise for the time being on the vesting provision, and accept a service condition, the next best bet is to work out a graduated vesting clause. There is very little logic and a lot of injustice in a clause under which a worker with, say, 5 years of service has full vested rights, while a worker with anything less than 5 years—even with 4 years and 11 months—has no vested rights.

If a service requirement is included, the agreement should provide that workers who leave their jobs before they have served the period required for full vesting will be entitled to proportionate vested rights. Under such a provision, if the service requirement is, say, 5 years, workers with 4 years of service will be entitled to 4/5 of their full pension credits, those with 3 years will be entitled to 3/5, etc.

In setting up their plans, unions should, wherever possible, adopt one of these methods—as may be most appropriate to their situation—so as to protect the equity of their members. While it is true that the operating cost of maintaining a given level of benefits will be greater—or the level of benefits which can be provided through a fixed employer contribution will be less—where this protection is embodied in the plan, a greater proportion of the membership will get these benefits.

The level of benefits can be improved through later negotiations, while the protection of earned pension-rights—through a vesting provision or through a multi-employer arrangement—can be more readily accomplished at the inception of the plan than at a later date after the plan has been set up on some other basis.

The effect of a vesting provision on costs may not be so simple and direct, however, as it is frequently made out to be. If the plan is trusteed and the actuary would normally take a discount for severance in computing costs, then a vesting provision would involve a direct increase in costs, since the severance discount would have to be eliminated.

However, the situation is somewhat different in the case of insured plans. Insurance premium rates do not include a discount for severance. Therefore, the inclusion of a

vesting provision would not result in any increase in initial premium payments, or the initial level of employer contributions. The cost of the vesting feature will not be reflected in any increase in the beginning level of contributions, but in the absence of cash surrender values, resulting from employee withdrawals, which the employer would otherwise receive as a future rebate or retroactive rate credit to be applied to reduce future contributions.

Accordingly, an employer who quotes insurance company estimates in backing up his contention as to the cost of the premiums required to fund a proposed level of benefits, will be in no position to maintain that the inclusion of a vesting provision along with that level of benefits would add anything to those costs. Likewise, if the employer seeks to impose severe limits on eligibility or the amount of service that can be credited towards retirement, in order to take account of withdrawals, he cannot say that a vesting provision covering those who meet these requirements would add significantly to his costs.

Contributory Versus Non-Contributory Plans

According to the latest Bureau of Labor Statistics survey, about 80 percent of the workers covered by negotiated pension plans make no direct contributions to these plans. The predominant practice in collective bargaining has been to establish these plans on a basis which requires no further contributions by the workers over and above the amounts paid in by the employer.

Although a great deal of attention has been devoted to this issue in some quarters, actually the question, as to whether a plan should be contributory or non-contributory, cannot be regarded as a basic one. It is entirely possible to set up a plan which will prove reasonably satisfactory on either basis, provided the plan is sound in other more fundamental respects.

As far as any question of principle is concerned, there is no sound argument in favor of employee contributions to private negotiated plans. However, some employers are emotional on the subject, and, in such a situation, it might be possible to use it as a lever to get concessions that could not otherwise be obtained—on other more vital issues—by

agreeing, in exchange, to go along with a contributory approach.

Nevertheless, unless the employer makes it well worth the union's while, the contributory approach should not be adopted without giving careful consideration to all the angles. Inasmuch as it involves a direct reduction in the members' present cash pay, it is no small matter. This issue has probably been surrounded with more phoney arguments than any other single feature of retirement plans. A few observations on this point are, therefore, in order.

It has frequently been argued, in behalf of contributory plans, that the worker's right to participate, through his union, in the administration of the plan, and his right to a vested interest in the funds which support the plan, are contingent upon contributions on his part. These arguments conveniently overlook the large number of unilateral contributory plans that make no provision whatsoever for any employee voice in their control and which give employees no claim at all against the amounts contributed by the employer.

The member's right to share in the administration of the plan and his equity in the funds are established through *collective bargaining*—not through any additional contributions on his part. As pointed out on preceding pages, and has been made plain in NLRB and court decisions, employer payments to these plans actually are a form of wages, earned by the workers through the performance of the services called for in the working agreement.

The workers are, therefore, paying for their own pensions, regardless of whether the plan is technically "contributory" or "non-contributory". Insofar as any question of right or "principle" is involved, workers have the same right to participate in the administration of the plan, and to establish an equity in the fund, regardless of whether or not they contribute out of their cash wages.

In the absence of any defensible arguments in favor of employee contributions as a matter of "principle", the decision as to whether or not employee contributions should be provided for in the plan should be determined by practical, dollars-and-cents considerations.

It is true, of course, that—given a certain level of contributions negotiated from the employer—additional contributions from the workers will make possible an increased level of benefits over what would otherwise be obtainable. However, this is no more than to say that, given a certain amount in his pay envelope, if the worker adds to it out of his own pocket, he will wind up with more in his pay envelope. The decision boils down into a balancing of the desirability of a higher level of deferred benefits against the undesirability of the reduction in cash pay which employee contributions would involve.

In making this decision, unions should keep in mind the fact that employee contributions involve a large element of "economic waste" and that the dollar which the worker contributes is a more expensive one—and will buy less pension benefits—than the dollar which the employer contributes. This is true because of tax, actuarial and administrative considerations.

Employer contributions are deductible from the income that the employer reports for tax purposes. Consequently, if his marginal income puts him in the 82% excess profits tax bracket, the dollar which he contributes to the plan actually costs him only 18¢, since he would otherwise have had to pay 82¢ of it to the government in taxes. Furthermore, the worker is not required to pay income taxes on the money which an employer contributes to a pension fund on his behalf. He pays taxes on it only when he begins to receive a pension, and then only if it puts him in a taxable income bracket.

On the other hand, workers must pay income taxes on the money which they first receive as wages and subsequently contribute to the pension fund. If a worker's tax rate is around 20%, therefore, each dollar which he contributes to the fund from his wage costs him $1.20 as compared with the employer's cost of 18¢ on the dollar.

The full dollar of employer contributions can be used to provide pension benefits. On the other hand, since employee contributions are returned to his beneficiary in case of death, probably less than 70¢ of the worker's high cost dollar will go to increase the level of pension benefits provided by the plan. Employee contributions cannot be dis-

counted for mortality or severance in determining how much pension benefits they will finance.

In other words, employee contributions are an individual savings program, not a group retirement plan. If a worker is in a position to save, he could do just as well with any money he can spare for that purpose by putting it in the bank or into government bonds. Most pension plans will only return him about 2% interest on the money he puts into it directly, so there is no particular advantage from the savings or investment standpoint.

The dollars-and-cents effect of these factors can be readily seen. Take a plan set up on the basis of an employer contribution of 10¢ an hour. If the employer is making excess profits, the plan actually costs him 1.8¢. If it is desired to increase the amount available for the funding of pensions to 14¢, through additional employee contributions, the worker would have to contribute about 6¢ an hour in order to accomplish this, since only between 60 and 70% of his contribution can actually be used to increase pension benefits. Furthermore, he will have to pay, say, 20% on that in income taxes—bringing the total cost of his contribution to 7.2¢, for a 4¢ increase in pensions.

Consequently, the total effective cost to both parties of the 14¢ an hour for pension benefits would be 9¢ an hour—1.8¢ to the employer and 7.2¢ to the employee. If the employer paid in the full 14c, on the other hand, the net effective cost would be only 2.5¢ an hour, at the 82% tax rate.

As a means of making possible increased pension benefits, therefore, direct employee contributions are highly inefficient and very costly to the workers.

Compulsory Retirement Should Be Resisted

Unions should make every effort to resist the inclusion in the plan of any provision making retirement compulsory at some fixed arbitrary age. This is one of the means through which pension plans are often used as a device of management rather than an instrument for the benefit of workers.

If the benefits are sufficient to enable a retired worker to live in relative comfort, dignity and security, most workers will voluntarily retire when the time comes that they

can no longer work as well as they used to do. If they are not sufficient, workers should not be compelled to retire while they are still able and willing to perform useful and remunerative service.

As far as costs go, a plan which permits workers to retire at their own pleasure after reaching the retirement age will prove considerably less expensive per unit of benefit than one which enforces compulsory retirement. Each year that a worker remains on the job after reaching retirement age reduces the cost of eventually paying him a pension by from 8 to 10%, so that if he elects to retire at age 68, his pension payments will take about 25 or 30% less out of the pension fund than if he retired at 65.

Counteracting Age Discrimination in Hiring

Unions should also exercise their best efforts to assure that these plans do not react against the employment of older workers. Employers may undertake to keep their costs down, or avoid retiring short service older workers with little or no pension, by adopting a policy of hiring only workers below a certain low maximum age limit.

Multi-employer plans, which are based upon a fixed per-cent of pay or cents-per-hour employer contribution to a pension fund, remove this incentive to discriminate against older workers, since the age distribution of their employees will not affect the employers' cost obligations under the plan.

The wider adoption of vesting provisions in other types of plans would also help to eliminate this problem, since it would enable workers to carry their pension credits earned in the past with them in the form of paid-up annuities, as they move from one employer to another. The amount on which a worker would be able to retire would not then be dependent solely upon his length of service with his last employer—and that employer would not face the choice of assuming the cost of funding an adequate pension for him over a short period of time, or retiring him on a small pension or none at all.

Part IX

PRIVATE PENSION PLANS AND SOCIAL SECURITY

The benefit schedules of some plans have been constructed in such a way as to make certain allowances for benefits available under the Federal Old Age and Survivors Insurance program. Generally speaking, this has been done in one of two ways: either through the use of an "integrated" formula; or through a so-called "offset" formula.

Integrated Plans

An integrated formula is one which, in relating benefits to earnings, provides a higher percentage benefit on that portion of earnings which is in excess of the Social Security cut-off level (formerly $3,000, now $3,600 under the 1950 amendments) than it does on the portion below that level. For instance, the plan might contain a formuia which calls for a benefit of 1% of earnings of up to $3,600 a year, plus 2% of all earnings in excess of $3,600, for each year of service from entrance until 65.

Formulas of this type are used as a means of providing higher-paid employees with a larger pension than would otherwise be possible under Bureau of Internal Revenue regulations. These regulations provide that no employee can receive a greater pension in proportion to his earnings than any lower paid employee, assuming identical periods of service and taking Social Security into account. Otherwise, employer contributions to the plan will not be tax exempt.

In other words, if Social Security provided the hourly-rated workers in a plant with a primary benefit of, say, 25 percent of pay, then the most that the company could provide in pensions to its executives and higher-salaried employees would be an "equivalent" percentage of their earnings in excess of $3,600.

If the company desires to pay its executives and high-salaried men a larger pension, then it will have to extend the plan to the lower paid workers as well, by supplementing their Social Security benefits in such a way as to maintain

an equivalent relationship between the combined benefits available to both groups.

The integrated formula takes into account the Social Security program as it exists at the time the plan is set up. It does not "automatically" compensate or adjust itself to any subsequent *changes* in the Social Security laws. If account is to be taken of changes in the benefit structure of the Social Security program, the integrated formula of the private plan must be revised after the change goes into effect.

Integrated formulas offer no particular advantages as far as the majority of workers are concerned. On the contrary, their main purpose is to make possible the use of a private plan to pay high pension benefits to higher-bracket employees, while avoiding the cost of extending equally high benefits to all the other workers in the establishment. They thus serve to divert pension funds that could otherwise provide more nearly adequate benefits to those who need them most to the benefit of those who need them least.

In other words, as between a straight 1¼% per year plan and a 1%-2% per year formula integrated with a $3,600 a year cut-off level, most, if not all, of the hourly-rated workers in a plant would be better off with the former. The latter would be more beneficial only to the executives and high-salaried employees.

Offset Plans

Some plans take account of Social Security benefits through the use of a so-called automatic "offset" formula, wherein the benefit schedule of the plan is stated as a certain amount or percentage *inclusive* of the primary Social Security benefit. In other words, the employer promises to pay only the *difference between* what the worker gets in primary Social Security benefits and the amount the formula sets forth.

Unlike the "integrated" plans described above, "offset" plans are designed to compensate automatically for future changes in Social Security, rather than just to take account of the existing level of Social Security benefits. Any improvement in OASI benefits, regardless of whether or not employer contributions to OASI are increased, will

with the offset device, reduce the amount of benefits payable under the plan, and the employer's costs will drop accordingly.

Under some of these plans, the full amount of the primary OASI benefit is deducted in arriving at the amount paid by the employer. In others, one-half of the Social Security benefit is deducted—on the principle that the employer has a right to deduct only that portion of the OASI benefit which is derived from employer contributions to the Social Security system.

Under these offset plans, it makes a lot of difference in the resulting pension as to whether Social Security is deducted from the formula *before* the amount due from the private plan is calculated or *after*, where the length of service is less than the amount required for maximum benefits. As an example of how this works, take a plan that provides $125 a month at age 65 after 25 years of service, including Social Security, and scaled down proportionately for years of service less than 25. Take a worker retiring at 65 with only 20 years of service, with a primary OASI benefit of $60.

If the benefit is scaled down on a *gross prorata* basis—that is, before Social Security is deducted, his pension would be 4/5 of $125 or $100 a month. The employer would provide $40 and $60 would come from Social Security.

If, on the other hand, the benefit is scaled down on a *net prorata* basis—that is, after Social Security is deducted, his benefit from the private plan would be 4/5 of $65 ($125 less $60 Social Security), or $52. This would give him a combined benefit of $60 plus $52 or $112, as compared with $100 on the gross prorata basis.

Disadvantages of Offset Plans

The level of benefits available through Social Security will, of course, always have an implicit bearing upon the level of benefits which a union might desire to provide through a private negotiated plan, even though Social Security is not referred to in the terms of the plan. Obviously, a private pension of, say, $50 a month would be much less satisfactory to a union group if there were no underlying structure of Social Security benefits to which it might be added.

Also, inasmuch as the negotiation of a pension plan involves the segregation of a sum of money which could otherwise have been used for a cash wage increase, an increase in Social Security benefits may make it less desirable to sacrifice a future wage increase in order to add further to the level of private pension benefits.

Nevertheless, to express this relationship in the form of an automatic offset gimmick in the benefit formula is a very questionable practice. In the first place, it implies acceptance of the proposition that the level of combined benefits set forth in the plan is so nearly adequate that any increase in Social Security during the term of the agreement can be spared by the workers so as to be used to cut the employer's costs rather than to provide a higher level of benefits. Few plans now provide benefits high enough to justify this proposition.

Secondly, it removes a large degree of control over the manner in which the plan is to operate from the hands of the parties directly concerned, making its terms dependent upon developments outside the sphere of collective bargaining. Any change in the terms of a negotiated plan should be the product of collective bargaining, in the light of all the relevant factors and conditions, and should not result automatically from developments in one particular area, over which the parties have no direct control.

For instance, even if the level of combined benefits were high enough to be reasonably satisfactory, a sharp rise in the cost of living could change the picture completely. If Congress were then to increase Social Security benefits to compensate for increased living costs, the workers would get none of the benefit. They would suffer a sharp decline in the real value of their pension benefits, inasmuch as the total money amount would remain the same.

In deciding what the benefits available under the private plan should be—whether or not they should be adjusted in recognition of changes in Social Security—such additional factors and considerations as this would have a strong influence on a collective bargaining decision. Under the offset device, however, these other important factors do not enter into the picture. The offset gimmick assumes that changes in Social Security take place in a vacuum.

Third, the argument, advanced by some, that such provisions would induce employers to lend their support to, or cease to oppose, necessary improvements in the Social Security system has not been borne out by the facts, and is not likely to be.

Over the long run, the cost to the employer of a certain level of pensions, provided through a private plan which makes no provision for vesting—and which is loaded with so many maximum limits and restrictions on eligibility, credited service, etc., that relatively few workers can qualify for full benefits—is not likely to be substantially higher than his share of the contributions which would be necessary to fund the same level of pension benefits through the Social Security system. The Social Security system provides those benefits, not just to those few who manage to reach age 65 after long and unbroken service with a single employer, but to all workers who are employed anywhere within the range of the Social Security Act, regardless of how many times they change jobs.

Social Security, therefore, would provide the same benefits to many more workers. Pension benefits provided through Social Security would not give the employer the same power to hold workers, at lower wages than he would otherwise have to pay, that a non-vested, company-dominated private plan would.

Furthermore, a Social Security offset geared to benefits, even if it did induce an employer to favor changes in Social Security, would not necessarily induce him to favor the same type of changes that labor would endorse. If he were primarily concerned with the cost effects, for instance, he might lobby in favor of an increase in Social Security benefits, but oppose the additional employer contributions to Social Security that would be required to maintain the increased benefits on a sound basis. Or he might exercise his influence in behalf of the elimination of employer contributions to Social Security altogether, in an effort to shift the entire direct cost load to workers.

The prospect of employer support is a very poor reed for labor to lean on in its efforts to secure genuine and necessary improvements in the Social Security program. The type of support that employer groups would be likely to

give would be a very dubious asset at best—for the superficial improvements that might result from the standpoint of present benefits might also involve, under employer auspices, other changes which could have the effect of undermining the soundness of the basic structure of the program.

What would seem more likely to ease employer opposition to further improvements in the Federal Social Security system would be the prospect that unions might otherwise press for the wider adoption of collective bargaining plans that provide the same type of protections and the same continuity of coverage as does Social Security—through liberal vesting provisions and industry, area and craft-wide programs. Plans of this type would be more costly to the employers involved, per unit of benefit, than would an improved Federal system, and would thus offer a very substantial inducement to employers to avoid such a development by supporting a liberalized Federal system—regardless of whether or not an "offset" device is employed.

This would appear to be a more constructive and fruitful way for unions to use their collective bargaining energies to promote improvements in Social Security than through the offset device—and more in line with trade union principles.

Fourthly, since employer contributions to retirement plans are a form of deferred wages, any provision which permits the employer to automatically recapture a portion of his contributions amounts to a sort of built-in wage cut. If the level of benefits stemming from the private plan is to be reduced in any way, the union should make sure that it will have the opportunity to convert the reduction in employer contributions—and the loss of deferred wages—into a commensurate increase in cash wages. A re-opening clause, calling for further negotiations in the event of a change in Social Security, is the most to which a union should commit itself in advance on this question in drawing up the agreement.

Not a Substitute For Social Security

As a final word, unions should clearly recognize that these privately negotiated plans do not diminish the need for an adequate governmental Social Security system. Their

negotiation should not be permitted to divert unions from the more important basic objective of promoting the improvement and expansion of the Federal old-age insurance program.

The Social Security system accomplishes the aims of vesting, continuity of coverage, adequate guarantees, and equity of treatment much more economically, effectively, and efficiently than is possible through a system of scattered, fragmentary, limited and unrelated private pension systems. A private plan should be regarded only as a supplement to the Social Security program. It is not, and never can be, a substitute for it.

APPENDIX A

TEXT OF GENERAL WAGE REGULATION NO. 21

GWR 21—Pension Plans and Profit-Sharing of a Deferred Compensation Type

Statement of Considerations

The Wage Stabilization Board has adopted this regulation to govern the establishment of new pension plans (section 2), and profit-sharing plans of a deferred-compensation type (section 3), and the amendment of existing plans. This regulation sets up a limited number of requirements which plans must meet, and it permits a wide area within which employers, or employers and unions, may determine for themselves the provisions of new or amended plans.

Parties desiring to establish or amend plans covered by this regulation are to file a report, on a prescribed form, with the Board. The report will be acknowledged, and, unless the parties are notified to the contrary within 30 days after the date of the acknowledgment letter, they may thereupon put the plan into effect as of the effective date provided for in the plan. Reports of plans which do not satisfy the requirements of this regulation, or which may appear, on preliminary review, to be unstabilizing shall be treated as petitions for Board approval and the parties notified accordingly. Such plans may not be put into effect unless and until the parties receive notification of Board approval.

The principal reasons which have impelled the Board to grant a large measure of discretion to parties wishing to establish new or amended plans are the following:

1. Plans covered by this regulation, unlike most other forms of compensation, generally constitute deferred and not immediate income to employees and, therefore, will not contribute materially to increased consumer purchasing power. Moreover, sections 2 and 3 of this regulation contain certain safeguards designed to insure that such plans are not used as a device for disbursing immediate income to employees.

2. The danger that these plans will result in inflationary additions to business costs is minimized by the widespread realization among employers and unions that such plans—because of their cost and because they involve long-term commitments—must be inaugurated or modified with great caution and only after careful planning, so that prudent judgment should operate as a particularly strong stabilizing influence in this field.

3. Existing plans are so varied that any attempt to establish detailed criteria in terms of benefits, costs, or a combination of these and other factors would tend to deprive parties of the freedom of choice which they should have in choosing a plan which is best adapted to their particular needs. In addition, because of the complexity and diversity of these plans, a number of serious technical difficulties arise in attempting to establish such detailed criteria.

Section 8 provides for Board review of this regulation in the light of experience hereunder. Should that experience indicate the need for changes in Board policy, such changes will be made in sufficient time to prevent impairment of the wage stabilization program.

In the formulation of this regulation, the Board has given due

consideration to the standar[illegible]d procedures set forth in Title IV and Title VII of the Defen[illegible]duction Act, as amended, and has obtained the approval of the [illegible]omic Stabilization Administrator.

Regu[illegible] Provisions

Sec.
1. Definitions.
2. New or amended pension [illegible]
3. Profit-sharing plans of th[illegible]erred compensation type.
4. Extension of existing plan[illegible]
5. Reporting and waiting pe[illegible] provisions.
6. Approvability of pension [illegible] under Internal Revenue Code.
7. Relationship to GWR 6.
8. Review of this regulatio[illegible]

SECTION 1. *Definitions.* [illegible] The term "pension plan," as used in this regulation, means any plan financed in whole or in part by the employer, the primary purp[illegible] of which is to provide annuities to employees who retire by re[illegible] of age or permanent and total disability. This regulation sha[illegible]ot apply to any benefit provided in plans other than such age ret[illegible]ent or permanent and total disability benefits. It shall include, bu[illegible]ll not be limited to, a plan providing benefits by means of any of t[illegible]ollowing: a benefit insured through a [illegible]surance company; a self-insured or [illegible] the employer, the employees, their representatives, [illegible]any combination thereof; or any combination of such plans.

(b) The term "parties," as used in this regulation, means an employer, or an employer and union, as the case may be.

SEC. 2. *New or amended pension plans.* Parties wishing to establish a new pension plan, or to amend an existing pension plan, may do so without prior Board approval, subject to the reporting and waiting-period provision of section 5 below, and provided that the plan meets the following requirements

(a) The normal retirement age under the plan shall be at least age 65. The retirement benefit for an employee who retires prior to normal retirement age shall be:

(1) Reduced in an amount which takes account of the additional years of service the employee would have accrued had he remained in service until normal retirement age (except in the case of unit benefit plans whose formulas apply only with respect to service until the time of early retirement); and further

(2) Appropriately reduced actuarially unless the payment of the benefit is deferred until normal retirement age (except in the case of early retirement for permanent and total disability); and

(b) Benefits, except death benefits, shall be payable at least over the life-time of the employee; and

(c) Any benefits for employees whose employment terminates prior to retirement, derived from employer contributions, shall not carry a cash surrender value to the employee and shall be deferred to the normal retirement date.

SEC. 3. *Profit-sharing plans of the deferred compensation type* Parties may, subject to the reporting and waiting-period provision of

section 5 below, put into effect new or amended profit-sharing plans, approved by the Bureau of Internal Revenue under pertinent regulations, which provide for the payment of benefits, derived from employer contributions, upon retirement for reasons of age or permanent and total disability, or upon severance, where (a) payments do not begin until at least 10 years after an employee's admission to the plan, and (b) such payments are payable over at least a 10-year period. No immediate benefit derived from employer contributions may be provided in the form of a lump sum cash or loan value except in the event of the employee's death.

SEC. 4. *Extension of existing plans.* Parties may, subject to the reporting and waiting-period provisions of section 5, below, extend an existing pension plan or profit-sharing plan of the deferred compensation type, without modification (a) to smaller employee units within the same plant or establishment, or (b) from a group of employees in one geographical unit of a multi-plant employer to a similar group of employees in another geographical unit of the same employer. Such extension may be made even though the plan does not satisfy the requirements stated in sections 2 or 3.

SEC. 5. *Reporting and waiting period provisions.* (a) The parties shall file details of the plan, on a prescribed form, directly with the Wage Stabilization Board, Washington 25, D. C., and they will be notified by letter that the report has been received.

(b) Unless the parties receive a further communication pertaining to such plan from the Board within 30 days from the date of the acknowledgment letter, they may put such plan into effect as of the effective date of the plan. However, final approval of the plan is conditioned upon compliance with the provisions of section 6 below.

(c) Reports of plans which do not satisfy the requirements of sections 2, 3, or 4, or which may appear, on preliminary review, to be unstabilizing, shall be treated as petitions for Board approval, and the parties notified accordingly. Such plans may not be put into effect unless and until the parties receive notification of Board approval.

SEC. 6. *Approvability of pension plans under Internal Revenue Code.* Any pension plan which meets all the other requirements of this regulation, although it may be put into effect, shall not be considered finally approved under this regulation unless and until approval is secured under the appropriate sections of the Internal Revenue Code.

SEC. 7. *Relationship to GWR 6.* Parties who have established or modified a plan of the type covered by this regulation under the provisions of GWR 6, subsequent to January 25, 1951, may petition the Board for the elimination of the cost of such plan from the amount chargeable against the permissible general wage increase under GWR 6, to the extent that such cost was so charged.

SEC. 8. *Review of this regulation.* This regulation will be reviewed by the Board in the light of experience hereunder.

Adopted unanimously by the Wage Stabilization Board, February 22, 1952.

NATHAN P. FEINSINGER,
Chairman.

-RESOLUTION ON PROCESSING OF CASES UNDER GENERAL WAGE
LATION 21

ing further instructions by the Board, the Executive Director
ocess cases filed under General Wage Regulation 21 within
ty-day waiting period provided in section 5 thereof.

case which does not meet the requirements of General Wage
ion 21 or which raises a question as to whether the plan may
abilizing shall be referred to a Division of the Board. The
shall be empowered to take final action, subject to the right
ember of the Division to refer the case to the full Board.

APPENDIX B

RETIREMENT BENEFITS AVAILABLE UNDER SOCIAL SECURITY ACT

The President signed the latest amendments to the Social Security Act into law on July 18, 1952. The terms of these amendments became effective September 1, 1952. The following are the benefits now available under the Act.

Persons Drawing Benefits Under Old Law

Benefits were increased for persons already on the retirement rolls in August 1952, and for persons who retire after August but who have not earned six quarters of coverage after 1950. In computing the new benefits of this group, the following Conversion Table is used:

TABLE I

Monthly Benefits (New Law) as Derived from (Pre-1950) Old-Law Primary Benefits and Conversion Table

Retired Worker (Old Law)	Retired Worker (New Law)	Worker with Wife over 65 or Widow with One Child	Widow over 65 or One Child	Widow with Two Children	Maximum Family Benefit
$10	$25.00	$37.50	$18.80	$45.00	$45.00
15	35.00	51.20	26.30	51.20	51.20
20	42.00	60.80	31.60	60.80	60.80
25	52.40	76.00	39.30	76.00	76.00
30	60.80	91.20	45.60	111.20	111.20
35	66.60	99.90	50.00	133.30	141.60
40	72.00	108.00	54.00	144.00	168.80
45	77.10	115.70	57.90	154.40	168.80

Beneficiaries Under "New Start" Formula

A new formula is used to compute the monthly benefits of a person who retires with six quarters of coverage after 1950. The primary benefit under this formula is equal to 55 percent of the first $100 of his average monthly wage, plus 15 percent of the next $200. Only the average earnings after 1950 are used in connection with this formula, in computing the benefit.

TABLE II

Monthly Benefits Based on New Formula

Average Monthly Wages	Retired Worker (Primary Amount)	Worker with Wife over 65 or Widow with One Child	Widow over 65 or One Child	Widow with two Children	Maximum Family Benefit
$100	$55.00	$80.00	$41.30	$80.00	$80.00
120	58.00	87.00	43.50	96.00	96.00
140	61.00	91.50	45.80	112.00	112.00
160	64.00	96.00	48.00	128.00	128.00
180	67.00	100.50	50.30	134.10	144.00
200	70.00	105.00	52.50	140.00	[illegible]
210	71.50	107.30	53.76	143.20	168.00
220	73.00	109.50	54.80	146.10	[illegible]
230	74.50	111.80	55.90	149.10	[illegible]
240	76.00	114.00	57.00	152.00	[illegible]
250	77.50	116.30	58.20	155.20	[illegible]
260	79.00	118.50	59.30	158.10	[illegible]
270	80.50	120.80	60.40	161.10	[illegible]
280	82.00	123.00	61.50	164.00	[illegible]
290	83.50	125.30	62.70	167.20	[illegible]
300	85.00	127.50	63.80	[illegible]	[illegible]

TABLE III

Social Security Tax Rate Schedule

Calendar Year	Employee	Employer	Self-Employed
1951-53	1½%	1½%	2¼%
1954-59	2 %	2 %	3 %
1960-64	2½%	2½%	3¾%
1965-69	3 %	3 %	4½%
1970 and after	3¼%	3¼%	4⅞%

APPENDIX C

ANNUAL COST OF BUDGET FOR AN ELDERLY COUPLE

The table set forth below represents the estimated annual cost, for the dates and cities shown, of a budget which, according to the Bureau of Labor Statistics, is needed to maintain an elderly couple, living alone on their own resources, with "a level of living which provides the goods and services necessary to maintain health and allow normal participation in community life, in accordance with current American standards. . . . The level of living described is not luxurious but is sufficiently adequate to provide for more than the basic essentials of consumption."[1]

The October 1950 costs, shown in the right-hand column, were developed and published by the Bureau of Labor Statistics. The February 1952 cost estimates, shown in the left-hand column, were derived by applying the subsequent increase in the B. L. S. Consumers' Price Index, for each of the cities shown, to the October 1950 data.

Annual Cost of Budget for an Elderly Couple, October 1950 and February 1952

City	February 1952	October 1950
Atlanta, Ga.	$1888	$1748
Birmingham, Ala.	1923	1779
Boston, Mass.	1989	1880
Chicago, Ill.	1934	1818
Cleveland, Ohio	1928	1805
Detroit, Mich.	1936	1818
Houston, Texas	1977	1855
Los Angeles, Calif.	2025	1866
Milwaukee, Wis.	2064	1908
New York, N. Y.	1891	1782
Norfolk, Va.	1904	1774
Philadelphia, Pa.	1920	1783
Seattle, Wash.	1976	1832
Washington, D. C.	1975	1883

[1] "Budget for an Elderly couple: Estimated Cost, October 1950", *Monthly Labor Review*, September 1951; Bureau of Labor Statistics, U. S. Department of Labor; p. 304-306.

SUMMARY EXAMPLES OF EX

Union and Employer	Funding and Adminis-tration	Financing	Eligibility for Benefits
Cement, Lime and Gypsum Workers, AFL, and Alpha Portland Cement Co.	Trusteed through bank; employer administered.	Employer pays full cost of scheduled benefits.	Normal: age 65 after 15 years' service. Retirement compulsory after age 70. Disability: Age 50 after 20 years " 51 after 19 " " 52 after 18 " " 53 after 17 " " 54 after 16 " " 55 and over after 15 years.
Chemical Workers, AFL and Blockson Chemical Co.	Company administered; insured-group annuity.	Employer pays full cost of scheduled benefits.	Normal: age 65. Early: age 55, with company consent. Vesting: Full vesting at age 45 after 10 years service: after 10 years service, regardless of age, for disability.
Electrical Workers, AFL and National Electrical Contractors Association	Tripartite administered trust fund.	Employers pay 1% of payroll. Workers pay $1.00 per month.	Normal: age 65.
Electrical Workers, AFL Local 3 and New York Contracters Association	Bipartite administered trust fund.	Employers pay 4% of payroll. Workers pay 1% of wages only when pension and benefit funds fall below $2,000,000	Normal: age 60 after 10 years union membership Disability: no age requirement; 10 years union membership.

DIX D

ISTING AFL PENSION PLANS

Benefit Formula	Illustrated monthly benefits if Average Annual Pay was: $2,000	$3,000	$5,000
	including Social Security of: $65.00	$77.50	$85 00
Normal pension: $2 per month per year of service from 15 to 25 years, plus $1 per month for each year from 26 to 35, up to age 68. Does not include Social Security. If average annual earnings in 5 years before retirement exceeded $3,600; then $1 per month extra is added if less than $3,800; $2 if $3,800 to $4,000; and $3 if $4,000 and over. Disability Pension: Ratio of years of service at date of disability to total years of service if employment had continued to 65 applied to pension due at 65. Minimum $30 a month. Normal pension after 65.	After 20 years' service $105	$117.50	$128.00
	After 30 years' service $120	$132.50	$143.00
Normal: 1% of average annual earnings per year of service to 65. Exclusive of Social Security. Early: actuarially reduced pension.	After 20 years' service $98.33	$127.50	$168.33
	After 30 years' service $115	$152 50	$210
$30 a month at 65 after 20 years' membership, increasing to $50 a month at 65 after 30 years' membership. Does not include Social Security.	After 20 years' service $95	$107.50	$115
	After 30 years' service $115	$127.50	$135
Normal pension: if 60 to 65 years of age or over 65 but not eligible for International Union pension—$80 per month. Age 65 and over and eligible for International pension—$150 per month less total amount received from International pension, Social Security or any other civilian governmental pension. If pensioned after 1954: $160; after 1959: $170. Disability: [illegible] per month.	$150	$150	$150

SUMMARY EXAMPLES OF EX

Union and Employer	Funding and Administration	Financing	Eligibility for Benefits
Electrical Workers, AFL and Niagara Mohawk Power Corp.	Company administered.	Employer pays full cost of scheduled benefits.	Normal: age 65 after 15 years service. Disability: No age or service requirement.
Federal Labor Union No. 24679 and Deere and Company	Company administerad trust fund.	Employer pays full cost of scheduled benefits.	Normal: age 65. Early: age 60 after 15 years service. Retirement compulsory at 68. Disability: age 50 after 15 years.
Ladies Garment Workers, AFL, New York Cloak Joint Board and Employers in New York City	Tripartite administered trust fund.	Employers pay 3% of payrolls.	Normal: age 65, union member for 11 years since June 1, 1933, in continuous good standing for last 5 years, and continuous employment for a contributory employer for last 5 years. Disability: age 60, service same as above.
Flint Glass Workers, AFL and Corning Glass Works	Company administered trust fund.	Employer pays full cost of scheduled benefits.	Normal: age 65 after 5 years service. Compulsory at 65. Disability: age 50.
Hatters, Cap and Millinery Workers, AFL Empire State Cloth Hat and Cap Man. Assn., Natl. Headwear Man. Assn., Uniform Man. Exchange	Bipartite administered trust fund.	Employers pay 3% of payrolls.	Normal: age 65 after 15 years union membership since 1925, including last 8 or more years, and 1 year of service since July 1, 1948.

D—Continued

ISTING AFL PENSION PLANS

Benefit Formula	Illustrated monthly benefits if Average Annual Pay was: $2,000	$3,000	$5,000
	including Social Security of: $65.00	$77.50	$85.00
Normal Pension: 1.5% of average earnings during highest 5 of last 10 years, per year of service to age 65, less one-sixth of the portion in excess of $1,200 and less one half of primary Social Security. Minimum net pension: $300 per year. Disability: Same formula, with minimum pension $360 per year prior to age 65, and $300 thereafter.	After 20 years' service $82.50	$113.75	$163.33
	After 30 years' service $107.50	$149.17	$215.42
Normal: 1.5% of average earnings during last 10 years multiplied by years of service. Minimum of $100 a month after 25 years, reduced $1.50 for each year less than 25. Includes Social Security. Early retirement: actuarial equivalent of normal pension. Disability: $3 per month for each year of service up to 30 years, but not less than $50 a month. Normal pension after 65.	After 20 years' service $92.50	$ 92.50	$125
	After 30 years' service $100	$112.50	$187.50
Normal and disability pension: Flat rate of $65 a month. Does not include Social Security.	$130	$142.50	$150
Normal: 1% of first $3,000 annual earnings, for each of the first 20 years of service, plus 2% of annual earnings over $3,000. For each year of service in excess of 20, [illegible] of earnings. Excludes Social Security, except increases after Jan. 1, 1950. Minimum of $100 after 25 years, reduced on gross pro rata basis for service less than 25, including Social Security. Disability: actuarial equivalent of normal pension. Normal pension after 65 if credited with 15 years service.	After 20 years' service $80.00	$ [illegible]	$164.67
	After 30 years' service $100	$114.50	$189.50
Flat rate of $35 per month, exclusive of Social Security.	$140	$112.50	$126

SUMMARY EXAMPLES OF EX

Union and Employer	Funding and Administration	Financing	Eligibility for Benefits
Longshoremen, AFL, and N. Y. Shipping Assn.	Bipartite administration. Trust fund or insurance at discretion of administrators.	Employers pay 5c per man hour.	Normal: age 65 after 25 years service in the industry. Disability: age 45 after 15 years service in the industry.
Meat Cutters, AFL, Local 234 and N. Y. City Kosher Butchers Associations	Bipartite administered trust fund.	Employers pay $2 per man-week. Workers pay $10 per year. Contributions also cover cost of health and welfare benefits in addition to pension.	Normal: age 60, after 20 years union membership.
Meat Cutters, AFL, Local 640 and N. Y. wholesale meat packers	Bipartite administration. Insured	Employers pay $2 per man-week.	Normal: age 65 after 10 years union membership.
Painters and Decorators AFL, District 9, and Association of Master Painters and Decorators of New York	Bipartite trust fund, administered through bank.	Employers pay 3% of payrolls.	Normal: age 65 after 20 years service and union membership. Disability, age 60 after 20 years service and union membership.
Paper Makers, AFL and Pulp, Sulphite and Paper Mill Workers, AFL and St. Regis Paper Co.	Bank trust fund. Company administered with union representation.	Workers contribute 2% of first $3,000 annual pay plus 4% of pay in excess of $3,000. Employer pays balance of cost.	Normal: 65 (men), 60 (women), after 10 years service. Retirement compulsory. Early: 55 (men), 50 (women), after 15 years, with company consent. Vesting: Full vesting after 15 years service.
Photo Engravers AFL, Local 1 and Photo Engravers Board of Trade New York City	Bipartite administered trust fund.	Employers pay $1.50 per man-week.	Normal: age 60 after 20 years union membership.

D—Continued

ISTING AFL PENSION PLANS

Benefit Formula	Illustrated monthly benefits if Average Annual Pay was: $2,000	$3,000	$5,000
	including Social Security of: $65.00	$77.50	$85.00
Normal and disability benefit: Flat rate of $50 per month, exclusive of Social Security.	$115.00	$127.50	$135.00
Flat rate of $60 per month, exclusive of Social Security.	$125	$137.50	$145.00
$1.50 per month for each year of union membership up to 30 years, exclusive of Social Security.	After 20 years' service		
	$95.00	$107.50	$115
	After 30 years' service		
Normal: Flat rate of $32 per month, exclusive of Social Security.	$110	$122.50	$130
Disability: actuarial equivalent of normal pension.	$97.00	$109.50	$117
Normal: ¾% of earnings up to $3,000 plus 1½% of earnings above $3,000 per year of future service; ½% of earnings up to $3,000 plus 1% of earnings over $3,000 per year of past service, after 5 years of employment. Does not include Social Security. Early: actuarial equivalent of normal pension.	After 20 years' service		
	$90	$115	$172.50
	After 30 years' service		
	$102.50	$133.75	[illegible]
Flat rate of $40 a month, exclusive of Social Security.	$105	$117.50	$125

SUMMARY EXAMPLES OF EX

Union and Employer	Funding and Adminis-tration	Financing	Eligibility for Benefits
Theatrical Stage Employees, AFL, Motion Picture Machine Operators Local 306 and RKO, Loews, and Independent theatre owners, New York City	Bipartite administered trust fund.	Employers pay 5% of straight time payroll.	Normal: age 60 after 20 years union membership. Disability: No age requirement, after 25 years union membership.
Teamsters, AFL and Milk Industry Employers, New York City	Bipartite administered trust fund.	Employers pay 6c per straight-time man-hour.	Normal: age 65 after 15 years service. Retirement compulsory at 70; at age 68 after July 1, 1952. Disability: age 55 after 15 years service.
Teamaters, AFL and Peppard Seed Company	Company administered. Insured—individual policies.	Employer pays full cost of scheduled benefits.	Normal: age 65 Vesting: 25% after 5 years 50% " 10 years 75% " 15 years 100% " 20 years
Teamsters, AFL and Milk Industry Employers, St. Louis, Mo.	Bipartite administration. insured-deposit administration contract.	Employers pay 6c per man-hour.	Normal: age 65 after 15 years of employment in the industry and 13 years union membership in good standing. Disability: age 55, service same as above.
Tobacco Workers, AFL, and American Tobacco Company	Company administered.	Employer pays full cost of scheduled benefits.	Normal: age 65 and 12 years service. Early: age 60 and 12 years service, with company consent. Disability: no age requirement, 12 years service. Vesting: full vesting at age 50 and 20 years service.

D—Continued

ISTING AFL PENSION PLANS

Benefit Formula	Illustrated monthly benefits if Average Annual Pay was: $2,000 including Social Security of: $65.00	$3,000 $77.50	$5,000 $85.00
Normal and disability pension: $30 per week, exclusive of Social Security.	$195	207.50	$215
Normal: $2 per month for each year of service from 15 to 25, exclusive of Social Security. Disability: $50 per month.	After 20 years' service		
	$105	$117.50	$125
	After 30 years' service		
	$115	$127.50	$135
Normal: ¾% of highest basic monthly pay prior to 5 years before retirement, per year of service to 65. Exclusive of Social Security. Death Benefit: $1,000 for each $10 of monthly pension. Pension paid for 10 years certain and life thereafter; paid to survivor in case of pensioner's death before end of 10 year period.	After 20 years' service		
	$90	$115	$147.50
	After 30 years' service		
	$102.50	$133.75	$178.75
Flat rate of $130.57 after 25 years, reduced for years of service less than 25, according to schedule, to $78.34 after 15 years of service on retirement. Includes primary Social Security.	After 20 years' service		
	$104.46	$104.46	$104.46
	After 25 years' service		
	$130.57	$130.57	$130.57
Normal: 2% of average annual earnings below $5,000, for each year of service up to 25 years. Includes one-half of primary Social Security. Disability: formula same as for normal pension, but no Social Security deduction from pension until age 65.	After 20 years' service		
	$99.17	$138.75	$209.17
	After 25 or more years		
	$115.83	$163.75	$250.83

APPENDIX E

SELECTED REFERENCES FOR FURTHER STUDY

Baker, Helen. *Retirement Procedures Under Compulsory and Flexible Retirement Policies.* Research Report Series: No. 86; Industrial Relations Section, Department of Economics, Princeton University, Princeton N. J. 1952. 65 pages. Price: $2.00.

Case studies based on surveys of actual experience in operation of both compulsory and voluntary retirement procedures under pension plans of fourteen representative companies in six major industries.

Bankers Trust Company. *A Study of Industrial Retirement Plans, 1950 Edition.* 16 Wall Street, New York 15, N. Y. 119 p. Free.

A useful and informative study of industrial retirement plans established or amended in the period of 1948, 1949 and the early months of 1950. Describes and analyzes the provisions of 217 plans, mostly of the employer unilateral type, covering a wide variety of different industries and types of companies. The short section on negotiated plans is very weak and unrepresentative, being confined largely to a few plans of the steel and auto type.

Boyce, Carroll. *How to Plan Pensions.* New York. McGraw-Hill. 1950. 479 p. Price: $5.00.

Deals with the technical, administrative and collective bargaining aspects of pensions. Primarily from the management point of view, but contains a good bit of material of value to unions. Written in clear and readable language for the layman. Appendix contains useful tables for approximating pension costs.

Bureau of National Affairs. *Handbook for Pension Planning.* Washington, D. C. 1949. 368 p. $5.00.

Contains chapters on the tax, legal, cost and financing aspects of pension plans, by a number of authorities in these fields. A chapter on "Bargaining for Pensions" by the BNA editorial staff.

Bureau of National Affairs. *Negotiated Pension Plans.* Washington, D. C. December 1949. 248 p. $3.00

Contains a summary and complete texts of 30 pension agreements.

Man and His Years. An Account of the First National Conference on Aging, sponsored by the Federal Security Agency. Health Publications Institute, Inc., Raleigh, North Carolina. 1951. 311 p. $3.25 cloth; $1.75 paper.

Gives a summary account of the discussions, findings and recommendations of the conference on problems of the aging, held in Washington in August of 1950. Covers such topics as income maintenance; employment, employability, and rehabilitation; housing; recreation, etc. Provides valuable material on the broader phases of the retirement problem.

National Industrial Conference Board. *Handbook on Pensions.* Studies in Personnel Policy No. 103. 247 Park Avenue, New York 17, New York. 1950. 164 p. $3.00.

Contains the complete texts of 22 negotiated plans plus a number of different types of pension contract clauses.

New York State Department of Labor. *Collectively Bargained Pension Plans in New York State, July 1951.* Publication No. B-49.

Division of Research and Statistics, 80 Centre Street, New York 13, N. Y. 106 p. Free.

Every union official considering the negotiation of a retirement plan should obtain a copy of this study. It provides what is probably the most detailed, instructive and up-to-date analysis of the largest number and variety of union-management pension plans that is now available, arranged in a particularly convenient form. The study outlines the terms of 208 negotiated pension plans in existence in the State of New York. The first part gives a general statistical summary, and the second consists of a tabular break down of the major provisions of each individual plan.

O'Neill, Hugh. *Modern Pension Plans, Principles and Practices.* New York. Prentice-Hall, Inc. 1947. 382 p. $5.00.

One of the best books available for anyone interested in making a more thorough study of the technical side of retirement plans. Discusses all the various angles, in some detail and in terms which are relatively intelligible to the layman. Good for reference purposes or for the amateur actuary, as the appendix contains complete mortality and precomputed interest tables.

Social Security Administration. Division of Research and Statistics, *Seventy-Three Employee Benefit Plans in the Petroleum Refining Industry.* Bureau Memorandum No. 70; Washington, D. C.; 1951. 264 pages.

Social Security Administration, Division of Research and Statistics, *Nineteen Employee-Benefit Plans in the Airframe Industry.* Bureau Memorandum No. 71; Washington, D. C., 1951. 63 pages.

Social Security Administration, Division of Research and Statistics, *Employee-Benefit Plans in the Electric and Gas Utilities Industries.* Bureau of Memorandum No. 73; Washington, D. C., 1952. 150 pages.

The three volumes listed above present detailed descriptions and analyses of the benefit provisions of a large number of pension plans, as well as health insurance plans, now in operation in the specified industries.

Strong, Jay V. *Employee Benefit Plans in Operation.* Bureau of National Affairs. Washington, D. C. 1951. 348 p.

Covers "health and welfare" plans as well as pension plans. Has a chapter on "Collective Bargaining on Welfare Programs." Appendix contains a statistical survey of the provisions of 637 pension plans as they existed in 1948 and early 1949.

U. S. Department of Labor. Bureau of Labor Statistics. *Collective Bargaining Provisions: Health, Insurance and Pensions.* Bulletin 908-17. Washington, D. C. 1950.

Sample contract clauses and complete texts of a number of pension agreements.

U. S. Department of Labor. Bureau of Labor Statistics. *Employee-Benefit Plans under Collective Bargaining, Mid-1950.* Bulletin 1017. Washington, D. C. 1951. 7 pages.

Sets forth the summary of a statistical survey of the extent, nature and coverage of pension and health insurance plans in union agreements, as of mid-1950.

LAUNDRY & LINEN SUPPLY DRIVERS

LOCAL UNION No. 181

39 WEST McMICKEN AVENUE

CINCINNATI 10, OHIO

PHONE CHERRY 4327

LOCAL ADMIN. FILE

181

X

X

July 3, 1953

Mr. Frank Tobin
Research and Statistical Dept.
International Brotherhood of Teamsters
438 Bowen Bldg.
Washington, D.C.

Dear Mr. Tobin:

On March 5, 1953 we wrote you asking for any information you might have on a type of pension plan to be used in our next negotiations. However, to the date of this writing we have heard nothing from you.

We realize that at the time we sent in our request the International was in the process of moving and our letter may have been misplaced.

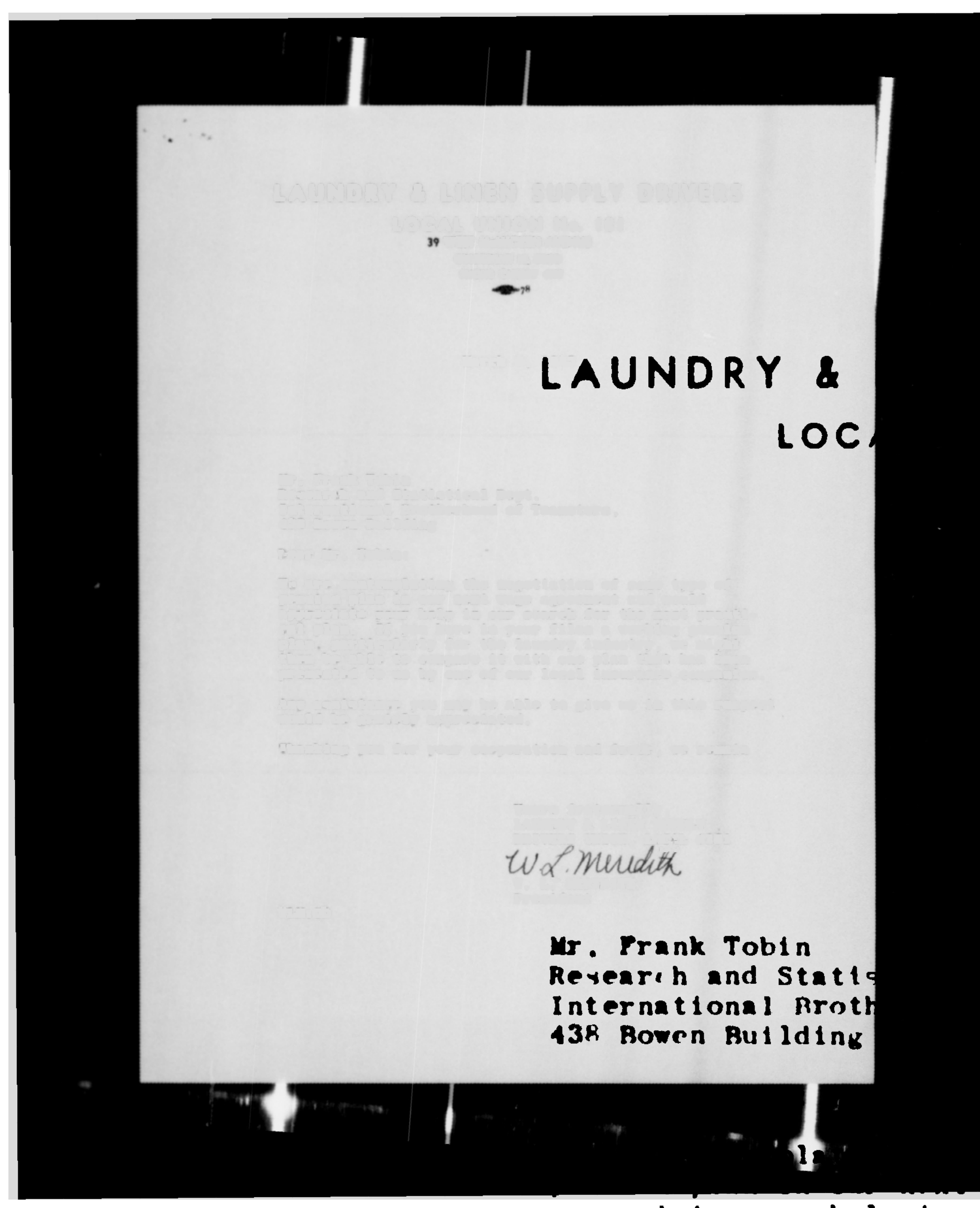
Any information you may be able to give us on a practical pension plan for our drivers would be gratefully appreciated and we thank you for this favor and cooperation.

Fraternally yours,
LAUNDRY & LINEN SUPPLY
DRIVERS UNION, LOCAL #181

W. L. Meredith

W. L. MEREDITH
President

WLM:OD



LAUNDRY & N SUPPLY DRIVERS

LOC ION No. 181
MICKEN AVENUE
ATI 18, OHIO
CHERRY 4327

h 5, 1953

Mr. Frank Tobin
Research and Stati Dept.
International Broth of Teamsters,
438 Bowen Building

negotiation of some type of wage agreement and would appreciate your help in our search for the most practical plan. If you have in your files a working pension plan particularly for the laundry industry, we might then be able to compare it with one plan that has been presented to us by one of our local insurance companies.

Any assistance you may be able to give us in this respect would be grately appreciated.

Thanking you for your cooperation and favor, we remain

Yours fraternally,
LAUNDRY & LINEN SUPPLY
DRIVERS UNION, LOCAL #181

W. L. MEREDITH
President

WLM:OD

JUNE 13, 1953

Charles D. Spencer & Associates, Inc.
W. Jackson Blvd.
Chicago 4, Illinois

Gentlemen:

At the present time
been developed to where we have analysed all
of our agreement therefore, ... b
now for us to ans questions which you have directed
to this office
Your best method for securing such data would be to
contact the local unions individually. We will, however,
within the next few months develop our department here

Yours very truly,

David Kaplan,
Director of Researc

DK:aw

Employee Benefit Plan Review

CHARLES D. SPENCER & ASSOCIATES, INC.

PUBLISHERS

HArrison 7-6838

166 W. JACKSON BOULEVARD
CHICAGO 4, ILLINOIS

ADMINISTRATIVE FILE
Fund - Teamsters
x Security
x

ATTENTION:

Personnel Manager

or

Industrial Relations Manager

We are publishing the attached report in regard to your plan in our EMPLOYEE BENEFIT PLAN REVIEW monthly magazine or our supplementary Research Reports.

Will you please verify the information--and send us any corrections or supplementary information you deem necessary?

Thank you for your prompt cooperation.

FR-5267

Yours very truly,

CHARLES D. SPENCER
Executive Editor

TEAMSTERS-AFL

New York, New Jersey and Connecticut - 205 milk companies are paying 6¢ per man hour to $50 a month at 65 after 25 years of service pension plan plus social security. (See 2-53 EBPR Mag. P. 10).

Chicago meat companies to contribute 2-1/2¢ per man hour to health and welfare fund. (See 2-53 EBPR Mag. P. 12).

Illinois Motor Truck Operators, Central Motor Freight Association, and Cartage Exchange (Chicago employer associations) - have agreed to establish a pension fund Jan. 1, 1955, to which employers will 5% per man hour. Employer health and welfare fund payments increased to $2.50 a week per employee.

Milwaukee moving companies (8 firms) - Company to pay $2 a week per employee to welfare fund.

Philadelphia - 25 food distributing companies - Employers to contribute $3 per wmployee a week to welfare fund.

Oakland, Calif. - Dairy employers have medical service plan.

Motor Transport Labor Relations, Inc., and other trucking companies (freight, food distributors, moving and storage companies, and fuel and oil dealers--local drivers, helpers and platform employees) of the Philadelphia, Pa., area - Company-paid welfare plan extends hospital and surgical benefits to employee's dependents.

IN RETURN FOR YOUR COOPERATION

IF YOU ARE NOT NOW A SUBSCRIBER

WE'LL BE GLAD TO SEND YOU WITH OUR COMPLIMENTS:

( ) A SAMPLE COPY OF OUR EMPLOYEE BENEFIT PLAN REVIEW MONTHLY MAGAZINE.

( ) A FEW SAMPLE PAGES FROM OUR LOOSE LEAF SERVICE--
EMPLOYEE BENEFIT PLAN REVIEW RESEARCH REPORTS

BOTH SERVICES PRESENT INFORMATION IN REGARD TO PENSIONS, PROFIT-SHARING RETIREMENT PLANS, AND HEALTH AND WELFARE PROGRAMS (GROUP INSURANCE, ETC.)

NAME__________ TITLE__________

FIRM__________

ADDRESS__________

MAIL TO: EMPLOYEE BENEFIT PLAN REVIEW, 166 W. JACKSON BLVD., CHICAGO 4, ILL.

ADMINISTRATIVE FILE ✓
Retirement
Health & Welfare
x Carrig, Margaret V.

JANUARY 16, 1953

Mr. Fred A. Tobin, Secretary
Retirement and Family Protection Plan
International Brotherhood of Teamsters
438 Bowen Building
Washington, D. C.

Dear Sir and Brother:

I have gone over the correspondence and Separation Computation in the case of Margaret V. Carrig and find it to be in order. It is my suggestion that Trustee English proceed with arrangements with regard to payment.

Fraternally yours,

DB:aw
e

COPY

INTERNATIONAL BROTHERHOOD OF TEAMSTERS
DAVE BECK, GENERAL PRESIDENT
FROM THE OFFICE OF